



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Moses Lake

Grant County

For the period January 1, 2016 through December 31, 2016

Published August 7, 2017

Report No. 1019514





Office of the Washington State Auditor
Pat McCarthy

August 7, 2017

City Council
City of Moses Lake
Moses Lake, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Moses Lake Grant County January 1, 2016 through December 31, 2016

2016-001 The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete financial reporting.

Background

The City Council, the Mayor, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions.

The City is responsible for designing, implementing and maintaining internal controls to ensure financial statements are prepared and fairly presented in accordance with generally accepted accounting principles (GAAP).

We identified and communicated deficiencies in controls that adversely affect the City's ability to produce reliable financial statements in the past four audits.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- City management does not have a formal process to comprehensively evaluate the City's complete financial statements for accuracy, consistency across financial statements and disclosures, and compliance with the provisions of the State Auditor's Office *Budgeting, Accounting and Reporting System (BARS) Manual*.
- The City has not developed a supported administrative cost allocation plan, which is required to demonstrate an equitable allocation of payroll-related expenses.
- City management reviews new accounting standards issued by the Governmental Accounting Standards Board (GASB) but has not developed a formal written process to determine the applicability of these standards to the City's financial operations.
- City staff did not reconcile the City's bank statements from April through November 2016, although they performed a reconciliation of the December 2016 bank statement as part of the City's year-end process.

- City staff have not periodically assessed the useful lives of existing capital assets to determine if they match the City's formal depreciation schedule. Additionally, when the City adopts a new depreciation schedule, which includes updated useful lives, it does not apply these changes to existing assets.

Cause of Condition

The City prepares its financial statements in accordance with GAAP. These financial statements are complex, and the reporting requirements change frequently. The City has experienced turnover in its accounting staff over the past several years; at the same time, staff have been working to integrate a new financial reporting software system into the City's existing processes. As a result, staff members have not been able to dedicate sufficient time to perform a comprehensive review of the accuracy of the completed financial statements before they submit the statements to our Office.

Effect of Condition

We noted the following reporting errors during our audit:

- The City's Ambulance Fund understated operating revenues and accounts receivables by \$496,000 due to a data entry error. This error resulted in the fund reporting a negative receivable.
- The City inadvertently reversed the amounts reported for Internal Service Fund charges for services and miscellaneous revenues, resulting in an understatement to charges for services of \$5,488,330 and overstatement to miscellaneous revenues by the same amount.
- The City combines several funds to present a single Water/Sewer Fund. However, the City did not eliminate transfers of resources between these combined funds, which led to overstating transfers in and transfers out by about \$5 million.
- Without a sufficient allocation plan, we are not able to determine whether certain administrative costs charged to proprietary funds are reasonable and supported. In fiscal year 2016, the City allocated \$476,500 in administrative expenses related to management.
- In its Notes to the Financial Statements, the City incorrectly stated that its investment with the Grant County Investment Pool was reported at fair value in the financial statements. However, the financial statements actually report the investment using amortized cost from the County

Treasurer's statement, which was about \$460,000 more than the fair value of the City's investment.

The City's financial statements also included several other errors, including in calculating the value of accumulated depreciation of certain capital assets and the classification of ending fund balance according to GASB criteria.

Recommendations

We recommend the City:

- Dedicate adequate time and resources for staff knowledgeable of GASB and BARS reporting requirements to comprehensively review the completed financial statements for compliance with those requirements and to perform other functions throughout the year that are necessary for the accuracy of the City's financial reports.
- Establish a formal process to evaluate the applicability of new GASB reporting standards, and obtain additional training and technical guidance as needed.
- Develop a supported cost allocation plan to distribute administrative costs across City funds in an equitable manner.

City's Response

The City's Finance Department has gone through a tremendous amount of turnover the last two years with critical personnel abruptly leaving that possessed extensive experience and knowledge. The subsequent hiring of personnel not fully knowledgeable in the understanding of the city's financial reporting software and the governmental operations and processes has contributed to inaccuracies in preparing the financial statements.

With the departure of experienced staff and to keep up with daily operations and needs, experienced personnel were pulled away from their duties that would be dedicated towards preparing and reviewing the financial statements to perform payroll and train new staff members. Those individuals that would normally analyze and monitor the progress of the preparation of the financial statements worked more hours to meet time deadlines. Because of the importance of making payroll and timely filings they were not able to dedicate ample time to catch many of the misstatements that had always been caught in past years with a fully experienced department. It has only been since the department has faced a fluctuation of new personnel that the State Auditors Office (SAO) has presented findings of internal control inadequacies.

Because the 2015 audit recommendations came during the same time as the preparation of the 2016 financial report the city was unable to fully implement those recommendations.

In addressing the concerns of the SAO the City has started the process to show support for the allocation method distributing payroll costs and related expenses to other funds. The city has and continues to send staff to educational opportunities to enhance their understanding of the State's budgeting, accounting and reporting system. The City also budgets and is resourceful in granting other training that will enhance the employees understanding of different aspects of their position. By doing so they become more proficient in their position and more efficient in their duties. With more familiarity and experienced duties such as bank reconciliations can be performed on a regular basis. We are also formulating a formal process to determine the applicability of standards issued by the Governmental Accounting Standards Board which would also encompass attending training to correctly report those standards.

With the City having close to 4,700 depreciable assets the SAO's recommendation to periodically assess the lives of existing capital assets would be all too time consuming. With each new purchase the city assigns the useful life of an asset based on what an average life would be for an item. There is no guarantee the asset will last longer or shorter than what is anticipated. When the City is done using equipment it has exceeded its estimated life and the maintenance cost reflect that with a greater number of repair bills. To think that one year that the an asset will last 3 years longer than estimated, change the life based on that analysis then find out the next year that it actually has a shorter life would create much more uncertainty. It is management's opinion it would take a full time person to routinely review each item. They would also need to have extensive knowledge of each item to be able to attest to new status of the asset. For that purpose such a recommendation seems impractical based on a cost to benefit analysis.

Auditor's Remarks

We appreciate the City's commitment to resolving the conditions noted, and we will evaluate the City's corrective actions during our next audit.

As noted in the Applicable Laws and Regulations section below, the City should take steps to minimize the number of capital assets that it reports as fully depreciated so that the omitted annual depreciation expense is not material.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

RCW 43.09.210 Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property, states in part:

All service rendered by one department, public improvement, undertaking, institution and public service industry to another, shall be paid for at its true and full value by the department receiving the same, and no department, public improvement, undertaking, institution or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

RCW 35A.33.122 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized, states in part:

Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.

Budgeting, Accounting and Reporting System (BARS) Manual – Interfund Activities, Overhead Cost Allocation, states in part:

3.9.5.10 Overhead costs consist of the costs of central services or support functions shared across departments. They may include accounting, human resources, payroll, information technology, janitorial services and others. Overhead costs may include not only the salaries, wages and benefits of the employees who work in these departments, but the utilities, supplies, information technology, building maintenance and other costs that support these employees. Typically, such services are initially paid through the general fund or an internal service fund and charged back to the departments and programs that directly benefited from them. The cost allocation process must be guided by an overhead cost allocation plan that describes how the organization will allocate costs reasonably

and equitably across funds and departments and identifies the documentation required to support the charges.

3.9.5.20 Under state law, government officials may charge a portion of the costs for their central overhead services to restricted funds, like utility funds or special revenue funds, only to the extent that each fund benefits from those services. Utilities charge user fees based on the cost of operating the utilities, and deposit those fees into utility operating accounts. Other restricted funds have dedicated revenue streams that can only be used for specific purposes. Governments must not allocate general government service costs, such as public safety, parks, law enforcement, community and economic development, or worker apprenticeship programs to the utilities or to other funds with restricted revenue sources that cannot pay for such charges.

3.9.5.30 RCW 43.09.210 indicates that when one fund is charging another, the fund being charged may only pay for the actual costs of the services it receives. Governments are expected to document those services and the costs of providing them to demonstrate these charges are fair, equitable and valid and reflect services provided.

3.9.5.40 RCW 43.09.210 states in part:

All service rendered by . . . one department, public improvement, undertaking, institution and public service industry to another, shall be paid for at its true and full value by the department . . . receiving the same, and no department, public improvement, undertaking, institution or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another

3.9.5.90 Local governments must allocate overhead costs fairly and equitably to those funds that benefit from overhead services. Charges to the benefiting funds must not exceed the cost and level of service that each fund receives.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Capital Assets, Capital Asset Accounting, states in part:

3.3.10.130 Fully-Depreciated Assets. Depreciation is intended to allocate the cost of a capital asset over its entire useful life. As useful lives are estimated, periodically, local governments should consider information available about the existing estimates and make adjustments as needed. It normally is not appropriate to report assets that are still in service as fully depreciated. Instead, the annual amount of depreciation expense should be reduced prospectively as soon as it becomes clear that an asset's useful life will be longer than originally expected. In practice, however, the use of average estimated useful lives for entire classes of assets means that at least a few fully depreciated capital assets typically will be reported (i.e., those whose actual lives exceed the group estimate). Such reporting of fully depreciated capital assets is acceptable, but only if such balances do not become material, in which case the estimated useful life for the group would need to be changed. If an asset is not expected to last as long as originally estimated, the useful life should be adjusted to ensure it becomes fully depreciated at the end of its service.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

Deficiency in internal control. A deficiency in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Moses Lake Grant County January 1, 2016 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Moses Lake. The State Auditor's Office has reviewed the status as presented by the City.

| | | |
|--|-----------------------------------|-------------------------------------|
| Audit Period: January 1, 2015 through December 31, 2015 | Report Ref. No: 1018814 | Finding Ref. No: 2015-001 |
| Finding Caption: The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete financial reporting. | | |
| Background: The City is responsible for designing, implementing and maintaining internal controls to ensure financial statements are prepared and fairly presented in accordance with Generally Accepted Accounting Principles (GAAP). We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency and which resulted in several errors on the City's financial statements: <ul style="list-style-type: none"> The City did not perform a formal analysis to determine applicability of several GASB standards and their related financial statement effects. The City has not developed a supported cost allocation plan, which is required to demonstrate an equitable allocation of payroll-related expenses. The City does not have sufficient procedures in place to ensure that financial statements and supporting schedules are prepared in accordance with the State Auditor's Office <i>Budgeting, Accounting and Reporting Systems</i> (BARS) Manual and consistent across financial statements and note disclosures. | | |
| Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div> | | |
| Corrective Action Taken: <i>The city is formulating a formal process to determine applicability of new GASB standards including review of the statements by accounting staff and the impact on current years statements. The review process will conclude with discussion with preparers to establish proper</i> | | |

disclosure and reporting of new standards months prior to its presentation.

The city is reviewing methods of cost allocation to clearly justify the distribution of labor costs of utility clerk. Methods include creation of a time analysis to help track time and also the incorporation of calls taken in by the utility clerks. Criteria such as purchase order dollars or number of lines input are also being analyzed to justify the allocation of the accounts payable clerks time.

With the continual exposure and experience gained by new staff, daily operations will become more routine and second nature allowing more time to be dedicated to the early assembly, preparation, and review process of the financial statements instead of learning the proper classification and presentation of financial information. The early drafting of the financial statements should allow for great review time ensuring the numbers are consistent across all statements, notes and supporting documents.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Moses Lake
Grant County
January 1, 2016 through December 31, 2016**

City Council
City of Moses Lake
Moses Lake, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, Grant County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to the management of the City in a separate letter dated July 19, 2017.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

June 27, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Moses Lake Grant County January 1, 2016 through December 31, 2016

City Council
City of Moses Lake
Moses Lake, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, Grant County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 22 through 34, infrastructure modified approach information on pages 86 through 88, pension plan information on pages 89 through 92 and page 94 and information on postemployment benefits other than pensions on page 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

June 27, 2017

FINANCIAL SECTION

**City of Moses Lake
Grant County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of the Governmental Funds Balance Sheet to the Government-wide
Statement of Net Position – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Government-wide Statement of Activities – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and
Actual – General Fund – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and
Actual – Street Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds –
2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to the Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified
Approach – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF Plan 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF Plan 2 – 2016

Schedule of Employer Contributions – PERS 1 – 2016
Schedule of Employer Contributions – PERS 2/3 – 2016
Schedule of Employer Contributions – LEOFF Plan 1 – 2016
Schedule of Employer Contributions – LEOFF Plan 2 – 2016
Schedule of Funding Progress – 2016
Firemans' Pension Plan Net Pension Obligation Trend Information – 2016

Management Discussion and Analysis

As management of the City of Moses Lake, we offer readers of the City of Moses Lake's financial statement this narrative overview and analysis of the financial activities of the City of Moses Lake for the fiscal year ended December 31, 2016. The information presented here should be read in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are rounded to the nearest thousand.

FINANCIAL HIGHLIGHTS

- The assets of the City of Moses Lake exceeded its liabilities at the close of the most recent fiscal year by \$152,515 (net position). Of this amount, \$12,211 (unrestricted net positions) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$7,408.
- As of the close of the current fiscal year, the City of Moses Lake's governmental funds reported combined ending fund balances of \$5,811, an increase of \$1,457 from the prior year.
- At the end of the current fiscal year, unassigned fund balance available to spend at the City's discretion for the general fund was \$2,879.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Proprietary funds. The City of Moses Lake maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Moses Lake uses enterprise funds to account for its water and sewer utility, sanitation, storm water, ambulance, and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Moses Lake's various functions. The City of Moses Lake also uses internal systems to account for its fleet of vehicles, self insurance, unemployment programs, building services, and computer services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer utility, sanitation, storm water, ambulance and airport as all are considered to be major funds of the City of Moses Lake. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Moses Lake's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information.

Required Supplemental Information. In addition to the basic financial statements and the accompanying notes this report also presents certain required supplementary information concerning infrastructure assets reported using the modified approach and pension plan funding.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Moses Lake, assets exceeded liabilities by \$152,514 at December 31, 2016.

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|----------------------------|-----------|--------------------------|-----------|------------|------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and other assets | \$ 6,233 | \$ 4,305 | \$ 20,571 | \$ 18,531 | \$ 26,804 | \$ 22,836 |
| Capital assets | 71,208 | 71,045 | 85,025 | 84,235 | 156,233 | 155,280 |
| Total assets | 77,441 | 75,350 | 105,596 | 102,766 | 183,037 | 178,116 |
| Deferred outflows pension | 1,317 | 637 | 451 | 254 | 1,768 | 891 |
| Deferred loss on refunding | 177 | 194 | 35 | 39 | 212 | 233 |
| Total deferred outflows of resources | 1,494 | 831 | 486 | 293 | 1,980 | 1,124 |
| Long-term liabilities | 9,790 | 10,205 | 10,954 | 12,443 | 20,744 | 22,648 |
| Other liabilities | 6,674 | 5,104 | 4,918 | 4,853 | 11,592 | 9,957 |
| Total liabilities | 16,464 | 15,309 | 15,872 | 17,296 | 32,336 | 32,605 |
| Deferred inflows pension | 124 | 1,136 | 42 | 392 | 166 | 1,528 |
| Total deferred inflows of resources | 124 | 1,136 | 42 | 392 | 166 | 1,528 |
| Net position: | | | | | | |
| Net investment in capital assets | 63,239 | 62,233 | 74,491 | 72,276 | 137,730 | 134,509 |
| Restricted | 1,247 | 780 | 1,327 | 1,417 | 2,574 | 2,197 |
| Unrestricted | (2,140) | (3,279) | 14,350 | 11,680 | 12,210 | 8,401 |
| Total net position | \$ 62,346 | \$ 59,734 | \$ 90,168 | \$ 85,373 | \$ 152,514 | \$ 145,107 |

The largest portion of the City of Moses Lake's net position (90%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Moses Lake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Moses Lake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Moses Lake's net position (2%) represents resources that are subject to

external restrictions on how they may be used. The remaining balance of unrestricted net positions (8%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Moses Lake is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The City's financial position for the year was better than anticipated due to an unexpected court decision with a major property owner over their assessment. Although the decision has been appealed, future years are looking positive with business growth increasing slightly and local economy expected to continue improving.

Statement of Changes in Net Position

The changes in net position table indicates the increases or decreases in net position of the city resulting from its operations. The City's total net position increased by \$6,918 in 2016. The increase after transfers was split among an increase in governmental \$2,121 and an increase in business-type activities \$4,797.

The following is a summarized version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position in table form for the governmental activities autonomous from the business-type activities for 2016.

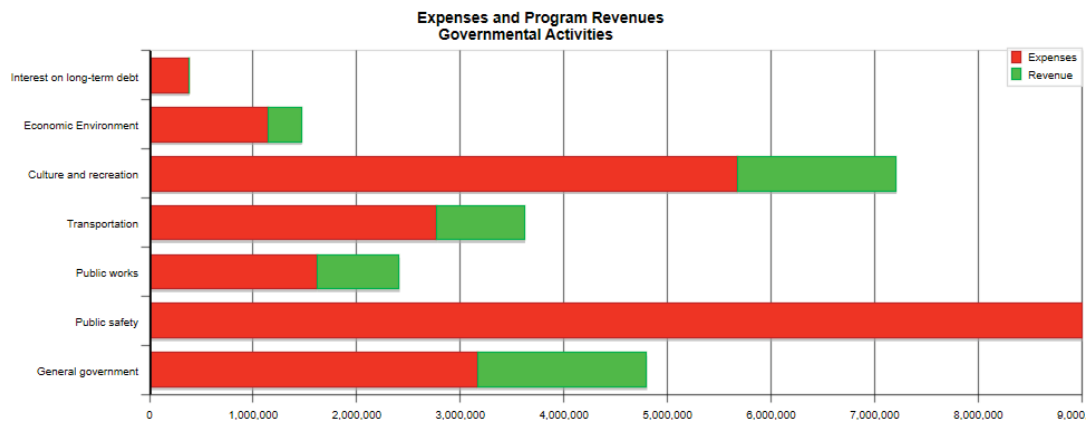
| City of Moses Lake Changes in Net Position | | | | | | |
|--|----------------------------|-----------|-----------------------------|-----------|------------|------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program Revenue | | | | | | |
| Charges for service | \$ 6,292 | \$ 6,077 | \$ 17,521 | \$ 17,317 | \$ 23,813 | \$ 23,394 |
| Operating grants and contributions | 65 | 127 | - | - | 65 | 127 |
| Capital grants and contributions | 680 | 680 | 1,563 | 663 | 2,243 | 1,343 |
| General Revenue | | | | | | |
| Property taxes | 7,595 | 4,464 | - | - | 7,595 | 4,464 |
| Sales taxes | 6,535 | 6,128 | - | - | 6,535 | 6,128 |
| Business taxes | 4,099 | 4,206 | - | - | 4,099 | 4,206 |
| Other taxes | - | - | - | - | - | - |
| Other | 268 | 488 | 224 | 156 | 492 | 644 |
| Total revenues | 25,534 | 22,170 | 19,308 | 18,136 | 44,842 | 40,306 |
| Expenses: | | | | | | |
| General government | 3,165 | 1,920 | - | - | 3,165 | 1,920 |
| Public safety | 9,079 | 8,476 | - | - | 9,079 | 8,476 |
| Public works | 1,616 | 1,705 | - | - | 1,616 | 1,705 |
| Transportation | 2,773 | 2,011 | - | - | 2,773 | 2,011 |
| Culture & recreation | 5,680 | 5,403 | - | - | 5,680 | 5,403 |
| Economic environment | 1,146 | 1,107 | - | - | 1,146 | 1,107 |
| Interest on long-term debt | 380 | 434 | - | - | 380 | 434 |
| Water/server utility | - | - | 7,284 | 8,027 | 7,284 | 8,027 |
| Sanitation | - | - | 3,606 | 3,544 | 3,606 | 3,544 |
| Ambulance | - | - | 2,338 | 2,395 | 2,338 | 2,395 |
| Airport | - | - | 51 | 52 | 51 | 52 |
| Storm water | - | - | 808 | 569 | 808 | 569 |
| Total expenses | 23,839 | 21,056 | 14,087 | 14,587 | 37,926 | 35,643 |
| Increase in net position before transfers | 1,695 | 1,114 | 5,221 | 3,549 | 6,916 | 4,663 |
| Transfers | 426 | 426 | (426) | (426) | - | - |
| Change in net position | 2,121 | 1,540 | 4,795 | 3,123 | 6,916 | 4,663 |
| Net position 01/01 | 59,735 | 60,893 | 85,372 | 85,047 | 145,107 | 145,940 |
| Prior Period Adjustments | 171 | (465) | - | (339) | 171 | (804) |
| Change in Accounting Principles | 319 | (2,234) | - | (2,460) | 319 | (4,694) |
| Net position 12/31 | \$ 62,346 | \$ 59,734 | \$ 90,167 | \$ 85,371 | \$ 152,513 | \$ 145,105 |

*The City had a change in accounting principal due to the implementation of GASB 73, please see note 1F for details.

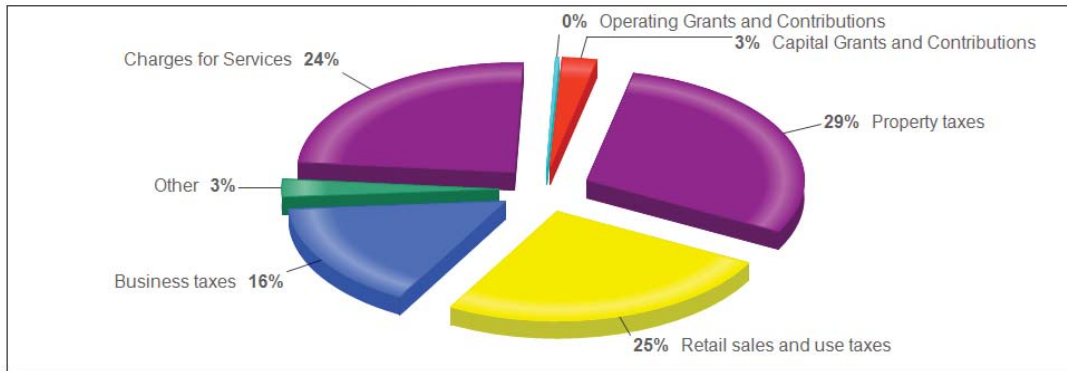
**The City had prior period adjustments for the Street Fund, please see note 17 for details.

Governmental activities. Governmental activities increased the City of Moses Lake's net position by \$2,121. As shown in the Statement of Activities, \$7,037 of the total cost was paid for by either those directly benefitting from the programs or by governments and organizations that subsidized certain programs through grants and contributions. Key elements of this increase are as follows:

- The increase (\$3,131) in property taxes was due largely to a court ruling against the largest property taxpayer for back taxes owed (\$1,025) and the elimination of a revenue sharing agreement (\$1,700) paid to the county..
- The increase in sales taxes (\$407) was attributable to the growth in retail sales and the local economy with the addition of new retail businesses.
- An increase in transportation (\$762) expenses came from multiple street projects to preserve the roadways which were put on hold in prior years to help build fund balances.
- The increase in public safety expense (\$603) is attributable largely to the settlement of contract negotiations for police and fire and retroactive pay to 2015 (\$269), increase in vehicle expense for the addition of two police vehicles, fire pump truck and capital equipment (\$216), and increase in professional fees (\$45) for increased call volume.

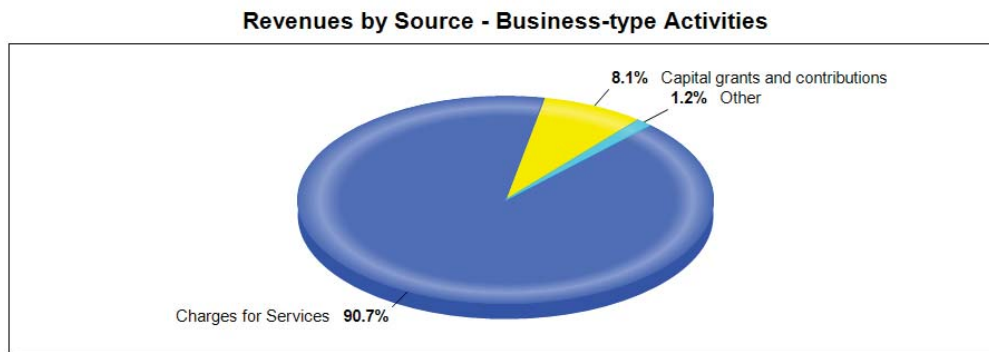
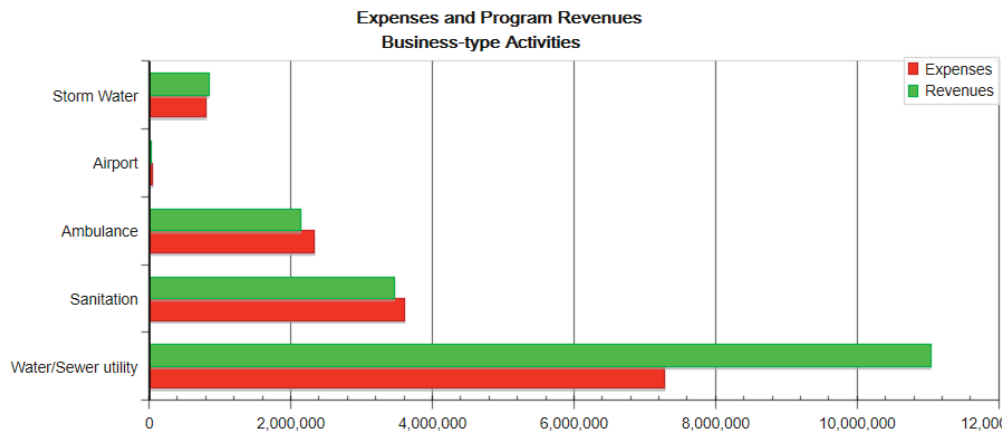


Revenues by Source - Governmental Activities



Business-type activities. Total net positions of business-type activities increased by \$4,795 for the year. Other than ambulance when revenues decrease for an activity so did the related expenses and when revenues increased so did expenses. Key elements of the fluctuations are as follows.

- An increase (\$152) in Water/Sewer utility revenues is attributable to an increase in rates by CPI (1.3%). The decrease in expenses (\$743) can be explained by a decrease in Internal Service activities (\$401), allocation of general fund administrative costs (\$247), contracted repairs (\$59), and interest (\$68).
- The storm water expenditures increased (\$239) almost entirely due to the development of seven drywells and a storm water retention basin.
- The increase (\$287) in charges for services for sanitation was mostly from a rise in residential rates. The decrease in expenses (\$62) can be attributed to a reduction in FTE.
- The airport is a non self-supporting fund and has minimal revenue and expenses.
- The ambulance fund had a decrease in revenue (\$487) from a reduction in call volume and also contractual limits related to Medicare and insurance allowances.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City of Moses Lake's governmental funds, which includes debt service funds, capital projects funds, and special revenue funds had an ending fund balance of \$5,811, an increase of \$1,457 in comparison with the prior year. It is partly made up of unassigned fund balance (\$2,879), which is available for spending at the government's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$329), for donations and grants held for culture and recreation use (\$557) and a variety of other restricted purposes (\$2,036).

The General Fund is the chief operating fund of the City of Moses Lake. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,879 while the total fund balance was at \$3,454. The street fund is a special revenue fund, who's purpose is for the maintenance of streets and alleys, traffic control, and electrical street lighting, had a total balance of \$515.

The fund balance of the City of Moses Lake's General Fund increased by \$1,046 during the current fiscal year and the Street Fund increased by \$(85). Key factors in the changes are as follows:

- The street fund operating revenue increased (\$282) due mostly to an increase in State entitlements (\$235). There was an increase in expenditures (\$271) over the previous year for seal coating of streets.
- There was an increase in property taxes (\$3,131), sales taxes (\$407) contributing to the General Fund.
- Increases in expenditures occurred in public safety (\$603), due to increases in salaries and benefits (\$269) and there were also increases in culture and recreation through the parks ice rink programs (\$277) that had been on a one year hiatus.
- There was some sustainable growth in the construction industry and as a result an increase in building fees and permits (\$324). Charges for services decreased (\$665) over the last year.

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

Unrestricted fund balance of the Water and Sewer Utility at the end of the year amounted to \$11,870, and that of the Ambulance Utility amounted to \$445. The total of the two funds accounted for 92% of the total net positions for all enterprise funds. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Moses Lake's business-type activities.

BUDGETARY HIGHLIGHTS

Original compared to final budget

The final revenue budget for the General Fund did not differ from the original budget while expenditures were \$527 higher than original. The street fund final revenue budget was \$225 higher than the original, and the expenditure budget had a slight increase from the original. This was the result of budget amendments approved by City Council during the year. The major budget changes are listed below.

- Changes in general government was the result of an increase in salaries for existing positions and a newly created position (\$94), an increase in legal fees (\$60) due to additional work for an appeal of a planning commission decision and city site plan approval. Public safety increased due to the settlement of wage negotiations (\$242) for both bargaining units of the city back to 2015. Recreation and culture was reduced due to the elimination of parks concessions (\$138) for labor and supplies. Capital changed due to a compressor (\$80) having to be replaced and request for a new

scanner/printer (\$25).

- Revenue for streets was increased entirely due to adjustment of state entitlements (\$225). The additional revenue allowed the fund to add other badly needed street improvements (\$89).

Actual results compared to final budget

General fund revenues were over final amended budget by \$2,077 (11%) and expenditures less by \$650 (3%). Street fund had \$38 more revenue (5%) than budget and expenditures were \$30 (1.6%) under budget. Factors contributing to this outcome were:

- Taxes were higher for the General fund due mostly to property taxes (\$558) and sales tax (\$733). Permits for new construction (\$332) accounted for the increase in licenses and permits. Charges for service of \$243 and intergovernmental revenues of \$151 were higher due to plan review (\$154), charges for parks and engineering services (\$32) for more activities than were projected and a greater amount of state shared revenue (\$143).
- There was a decrease in public works expenditures (\$303), and culture and recreation (\$314). These funds cut back on their spending through reduction in the labor force therefore reducing wages and benefits (\$287 and \$305).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, aquatic facilities, and streets. The total increase in the City of Moses Lake's investment in net capital assets for the current fiscal year was 2.4% (a 1.6% increase for governmental activities and a 3.0% increase for business-type activities).

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

- New rolling stock was purchased (\$959), which included a pump truck (\$505), two mowers (\$199), two police vehicles (\$92) and a bucket truck (\$88).
- Major work was completed on sewer system improvements (\$653), well repair and renovation (\$629) was completed, new lift station (\$425), water system improvements (\$745), lift station improvements (\$641), manhole lining project (\$211) and a replacement of a comfort station (\$138) were finished in 2016.
- Storm drain improvements (\$204) were finalized and drywell projects (\$225) were completed.

City of Moses Lake's Capital Assets
(Net of depreciation)
(Actual Amounts)

| | Governmental Activities | Business-type Activities | Total |
|----------------------------------|----------------------------|-----------------------------|-----------------------|
| Land and land improvements | \$ 5,560,986 | \$ 1,273,031 | \$ 6,834,017 |
| Buildings and other improvements | 21,067,725 | 28,096,871 | 49,164,596 |
| Machinery and equipment | 4,902,298 | 3,023,204 | 7,925,502 |
| Infrastructure | 39,468,962 | 52,141,285 | 91,610,247 |
| Construction in Progress | 208,065 | 490,873 | 698,938 |
| Total assets | <u>\$ 71,208,036</u> | <u>\$ 85,025,264</u> | <u>\$ 156,233,300</u> |

Additional information on the capital assets of the City of Moses Lake can be found in Note 6.

Infrastructure. The City of Moses Lake has elected to use the modified approach as defined by GASB statement 34 for reporting its streets, alleys, bike paths, parking lots, bridge, storm drains, catch basins, dry wells and piping. The City has made a commitment to preserve and maintain the street infrastructure at an acceptable condition rather than recording depreciation. The rating scales for paved streets, bridge and storm water system are further explained in the required supplementary information, which follows the notes to the basic financial statements.

The City's engineering department evaluates the condition that paved streets are kept based on a formula established by a street assessment program. The formula is calculated using 8 different criteria applied to all paved streets from one intersection to another. Among the criteria is depths and lengths of cracks, sags and humps, and patching. From the inputting of the information the system evaluates all criteria and produces a rating. The condition assessment is taken at least once every three years. The City has no set policy as to the level the streets are to be maintained. However, the City has a program where the streets have a crack seal process applied every six years to bring the condition of the street substantially up.

By definition the City has one bridge that it maintains. The portion that is under water, is inspected every five years by the state Department of Transportation and documented in an inspection report given to and maintained by the City. The bridge is given a sufficiency rating, which is a numerical rating based on a 100 point scale. The rating is based on its structural adequacy and safety, load capacity, essentiality for public use, and its serviceability and functional obsolescence. Currently the one bridge carries a sufficiency rating of between 65 and 70. The City inspects and evaluates the remainder of the bridge above the water line using the pavement management system that is used for rating paved streets. The bridge has no load limits which substantiates its superior rating. Projected costs to maintain the bridge are included in the budgeted cost of the streets.

The City maintains an inventory of these infrastructure assets. With triennial assessments establishing the condition level of the assets, the City makes annual estimates of the cost to maintain its streets which are also reported in the City's annual Capital Improvement Program. For 2016 the City projected \$1,008 for road maintenance. The actual amount expended was \$831.

Normally there were no significant changes in the condition levels of the streets. With relatively mild weather patterns the condition level of the streets was maintained above the acceptable conditions for the City. However, in 2016 the city experienced a severe cold winter and the streets succumbed to above normal fracturing. In 2017 the city established a Transportation Benefit District to generate revenue and to address future repair needs.

Long-term debt. At the end of the fiscal year, the City of Moses Lake had total bonded debt outstanding of \$14,995. Of this amount, \$7,280 comprises debt backed by the full faith and credit of the government and \$7,715 represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

| | Governmental Activities | Business-type Activities | Total |
|-------------------------|----------------------------|-----------------------------|---------------|
| General obligation debt | \$ 6,685,833 | \$ 594,167 | \$ 7,280,000 |
| Revenue debt | - | 7,715,000 | 7,715,000 |
| Total long-term debt | \$ 6,685,833 | \$ 8,309,167 | \$ 14,995,000 |

The City of Moses Lake's total bonded debt decreased by \$1,915 due to payments and no new debt being issued. Currently, the city does not anticipate issuing any new debt in the foreseeable future and there is no bonded debt being retired or maturing until 2020.

The City of Moses Lake maintains favorable rating from Standard & Poor's by carrying Bond insurance. The Revenue Bonds are rated "AA-" and the General Obligation Bonds as of March 2017 were rated "A+", with an upgrade to a stable outlook'.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2016 was \$2,143,919,575 and the remaining debt capacity is as follows:

| | (Actual amounts) |
|----------------------------|------------------|
| General | \$ 43,636 |
| Open Space/Park Facilities | 53,598 |
| Utilities | 53,598 |
| Total | \$ 150,832 |

Additional information on the City's long-term debt can be found in Note 9 to the Financial Statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

While the area has sustained moderate growth through 2007 and remains positive, the rate of growth began to slow in 2008, and slowed further in 2009 through 2014. In 2016 growth in the economy picked up, albeit at a still relatively tempered pace. This renewed economic growth is expected to continue in 2017 with new businesses opening stores and existing ones expanding.

Growth generally translates into greater revenues attributable in part to increased sales taxes, property taxes, permit fees, and the like. The City finds itself in a somewhat unique and fortunate situation. While

the effect of the past national “great recession”, as it has been termed, is felt by the City in reduced sales taxes and permitting fees, the real property taxes from industrial growth has covered the loss of those reduced sales tax receipts and even caused an overall increase in general government revenues. As the national economy grows again, the City anticipates sales taxes and permitting fees will rebound which will be extremely advantageous for the City. This growth has become apparent in 2016 where the City has realized a moderate growth in property taxes and permitting fees.

With continued growth of the local economy, which is providing governmental revenue, at a previously unrealized rate, the City can anticipate providing services at the level now provided and perhaps increase those services in some areas. The aforementioned factors were considered in the preparation of the City's 2016 budget.

In reviewing the building activity in the local economy currently in progress and anticipated for the future, it is anticipated that the local economy should continue to improve in 2017 and perhaps for several years in the future, but at a moderate rate, which supports the assumption that current service levels can be maintained.

Several industrial and retail concerns in and around the City have completed new projects or expansions in 2016. These expansions, additions, and new projects will result in added building activity, a short term influx of construction employment, and in the long term, add jobs to the City's employment base. The expansion and/or new location of industry and retail in and around the City will have a direct effect on the local economy and have an effect on building activity which will affect the City's property tax receipts. The added employment has resulted in additional population in and around the City which will affect retail sales and, therefore, the City's retail sales tax receipts.

Property tax increases have been limited by voter approved initiatives. However, gross property tax receipts have increased because of annexations and new construction within the City.

The property owner with the largest real estate tax assessment within the City appealed their 2012 assessment. The County is seeking a \$1.2 billion value and the property owner a \$450 million value or less. Washington State Board of Tax Appeals (BTA) assessed a valuation of \$904 million for the property owner. The property owner appealed the verdict to Superior Court. Superior Court remanded the case back to BTA for clarification. The BTA returned with a new valuation of \$774 million for the 2012 assessment. The decision is reflected in the city's property tax revenue for 2016. The same property owner has disputed their 2013, 2014 and 2015 assessment. All years have been heard by the Board of Equalization and were appealed to the BTA. The County feels strongly that the board will more favorably view the County's determination of assessed value than that of the property owner. The City is not anticipating a decrease in services and will defer construction projects until such time as the dispute is resolved.

During the current fiscal year, the unassigned fund balance increased as the total fund balance for the General Fund. Except for a small allowed property tax increase, no other tax increases were included in preparing the 2016 budget. The City expects and intends to increase the fund balances in future years as management is in the process of establishing a fund balance policy based on a factor of operating expenditures..

While it is expected that future budgets may be limited by voter approved initiatives and legislation, which can reduce income to the City's General or Operating Fund, it is expected that some of the limitations experienced by the City will be tempered by continued economic development, primarily in the retail, industrial, and tourism sectors. All of the referenced factors were considered in preparing the City of Moses Lake's budget for the 2016 fiscal year.

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

Requests for Information

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

CITY OF MOSES LAKE
Statement of Net Position
December 31, 2016

| | Governmental Activities | Primary Government Business-Type Activities | Total |
|--|----------------------------|---|----------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 9,420,450 | \$ 9,257,622 | \$ 18,678,072 |
| Receivables (net of allowances for uncollectibles) | 2,623,037 | 2,216,189 | 4,839,226 |
| Internal balances | (7,156,442) | 7,156,442 | - |
| Inventories and prepaid items | 258,661 | 424,475 | 683,136 |
| Restricted assets: | | | |
| Cash | - | 1,310,849 | 1,310,849 |
| Interest and other receivables | 1,454 | - | 1,454 |
| Capital assets | | | |
| Land and land improvements | 5,560,986 | 1,273,031 | 6,834,017 |
| Construction in Progress | 208,065 | 490,873 | 698,938 |
| Net of accumulated depreciation | | | |
| Buildings and other improvements | 21,067,725 | 28,096,871 | 49,164,596 |
| Machinery and equipment | 4,902,298 | 3,023,204 | 7,925,502 |
| Infrastructure | 39,468,962 | 52,141,285 | 91,610,247 |
| Net Pension Asset | 1,086,302 | 205,697 | 1,291,999 |
| Total assets | 77,441,498 | 105,596,538 | 183,038,036 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred loss on refunding | \$ 176,530 | \$ 35,306 | \$ 211,836 |
| Deferred outflows related to pensions | 1,316,528 | 450,816 | 1,767,344 |
| Total deferred outflows of resources | 1,493,058 | 486,122 | 1,979,180 |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 544,016 | 1,093,331 | 1,637,347 |
| Accrued interest | 55,195 | 131,248 | 186,443 |
| Unearned revenues | 496 | - | 496 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,397,827 | 1,553,634 | 2,951,461 |
| Due in more than one year | 9,790,396 | 10,953,984 | 20,744,380 |
| Net pension liability | 4,676,705 | 2,139,885 | 6,816,590 |
| Total liabilities | 16,464,635 | 15,872,082 | 32,336,717 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 123,902 | 41,769 | 165,671 |
| Total deferred inflows of resources | 123,902 | 41,769 | 165,671 |
| NET POSITION | | | |
| Net investment in capital assets | 63,239,074 | 74,491,199 | 137,730,273 |
| Restricted For: | | | |
| Debt service | 184,723 | 1,327,160 | 1,511,883 |
| Other purposes | 1,062,017 | - | 1,062,017 |
| Unrestricted | (2,139,795) | 14,350,450 | 12,210,655 |
| Total net position | \$ 62,346,019 | \$ 90,168,809 | \$ 152,514,828 |

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

CITY OF MOSES LAKE
Statement of Activities
For the Year Ended December 31, 2016

| Function/Programs | Net (Expenses) Revenues and Changes in Net Position | | | | | |
|--------------------------------------|---|----------------------|------------------------------------|------------------------------------|-------------------------|--------------------------|
| | Expenses | Program Revenues | Program Revenues and Contributions | Program Revenues and Contributions | Primary Government | |
| | | | | | Governmental Activities | Business-type Activities |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 3,164,520 | \$ 1,634,010 | \$ 2,111 | \$ - | \$ (1,528,399) | \$ - |
| Public safety | 9,079,116 | 1,169,764 | 35,409 | - | (7,873,943) | - |
| Public works | 1,616,151 | 794,545 | - | - | (821,606) | - |
| Transportation | 2,772,694 | 848,254 | - | 679,361 | (1,245,079) | - |
| Culture and recreation | 5,680,271 | 1,526,032 | 27,184 | 1,000 | (4,126,055) | - |
| Economic Environment | 1,146,169 | 319,852 | - | - | (826,317) | - |
| Interest on long-term debt | 379,763 | - | - | - | (379,763) | - |
| Total governmental activities | 23,838,684 | 6,292,457 | 64,704 | 680,361 | (16,801,162) | - |
| Business-type activities: | | | | | | |
| Water/Sewer utility | 7,283,991 | 11,036,058 | - | 1,359,836 | - | 5,111,903 |
| Sanitation | 3,605,673 | 3,471,109 | - | - | - | (134,564) |
| Ambulance | 2,337,527 | 2,145,587 | - | - | - | (191,940) |
| Airport | 50,676 | 25,979 | - | - | - | (24,697) |
| Storm Water | 807,738 | 841,820 | - | 203,377 | - | 237,459 |
| Total business-type activities | 14,085,605 | 17,520,553 | - | 1,563,213 | - | 4,998,161 |
| Total primary government | \$ 37,924,289 | \$ 23,813,010 | \$ 64,704 | \$ 2,243,574 | (16,801,162) | 4,998,161 |
| | | | | | | (11,803,001) |
| General Revenues: | | | | | | |
| Property taxes | | | | | 7,594,524 | - |
| Retail sales and use taxes | | | | | 6,535,040 | - |
| Business taxes | | | | | 4,099,389 | - |
| Investment earnings | | | | | 234,809 | 148,413 |
| Insurance recoveries | | | | | 32,770 | 75,630 |
| Transfers, internal activities | | | | | 425,660 | (425,660) |
| Total general revenues and transfers | | | | | 18,922,192 | (201,617) |
| Changes in net position | | | | | 2,121,030 | 4,796,544 |
| Net position - beginning | | | | | 59,735,031 | 85,372,263 |
| Prior Period Adjustments | | | | | 171,441 | - |
| Changes in Accounting Principles | | | | | 318,517 | - |
| Net position - ending | | | | | 62,346,019 | 90,168,807 |
| | | | | | \$ | \$ 152,514,826 |

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

CITY OF MOSES LAKE
Balance Sheet
Governmental Funds
December 31, 2016

| | General | Street | Other Governmental Funds | Total Governmental Funds |
|---|--------------|------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 4,024,677 | \$ 520,738 | \$ 1,877,132 | \$ 6,422,547 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 1,366,489 | - | - | 1,366,489 |
| Customer accounts | 89,419 | - | 37,667 | 127,086 |
| Unbilled services | 312,379 | - | - | 312,379 |
| Other receivables | 802,164 | 6,517 | 168 | 808,849 |
| Due from other funds | 10,670 | - | - | 10,670 |
| Due from other governments | 4,015 | - | 4,218 | 8,233 |
| Prepaid Expenses | 103,983 | 73,703 | - | 177,686 |
| Total assets | 6,713,796 | 600,958 | 1,919,185 | 9,233,939 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | 60,942 | 68,475 | 36,014 | 165,431 |
| Salaries and benefits payable | 276,239 | 9,534 | 299 | 286,072 |
| Due to other funds | 2,611 | 1,567 | 2,196 | 6,374 |
| Unearned revenue | 496 | - | - | 496 |
| Interfund loans payable | 750,000 | - | - | 750,000 |
| Unearned revenue | 51,182 | 6,517 | 37,667 | 95,366 |
| Other short-term liabilities | 1,300 | - | - | 1,300 |
| Total liabilities | 1,142,770 | 86,093 | 76,176 | 1,305,039 |
| Deferred inflows of resources | | | | |
| Deferred property tax | 1,366,489 | - | - | 1,366,489 |
| Deferred traffic citations | 750,982 | - | - | 750,982 |
| Total deferred inflows of resources | 2,117,471 | - | - | 2,117,471 |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventories and noncurrent receivables | 244,583 | 80,220 | 4,386 | 329,189 |
| Restricted for: | | | | |
| Public safety programs | - | - | 285,722 | 285,722 |
| Tourism | - | - | 541,893 | 541,893 |
| Debt service | - | - | 184,723 | 184,723 |
| Culture and recreation | - | - | 556,876 | 556,876 |
| Committed for: | | | | |
| Committed | 330,371 | - | - | 330,371 |
| Culture and recreation | - | - | - | - |
| Transportation | - | - | 207,328 | 207,328 |
| Assigned to transportation | - | 434,646 | - | 434,646 |
| Assigned to Culture and recreation | - | - | 62,082 | 62,082 |
| Unassigned | 2,878,602 | - | - | 2,878,602 |
| Total fund balances | 3,453,556 | 514,866 | 1,843,010 | 5,811,432 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 6,713,797 | \$ 600,959 | \$ 1,919,186 | \$ 9,233,942 |

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

CITY OF MOSES LAKE
Reconciliation of the Governmental Funds Balance Sheet to
The Government-wide Statement of Net Position
December 31, 2016

| | |
|----------------------------------|--------------|
| Total Governmental Fund Balances | \$ 5,811,432 |
|----------------------------------|--------------|

Amounts reported for governmental activities in the government government-wide statement of net position are different because:

| | |
|--|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets) | 54,297,177 |
|--|------------|

| | |
|--|-----------|
| Other long-term assets are not available to be collected in current period revenues and therefore are deferred in the funds. | 2,212,837 |
|--|-----------|

Internal service funds are used by management to change the costs of certain activities, such as insurance, information services, fleet management, and building maintenance, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities on the government-wide statement of net position.

| | | |
|---|-------------|-----------|
| Internal Service funds' net position | 9,630,347 | |
| Internal payable-charges under cost to business-type activities- prior years | (1,024,955) | |
| Internal receivable-charges over cost to business-type activities - current years | (681,843) | |
| Net adjustment to arrive at net position - governmental activities | | 7,923,549 |

Liabilities, including bonds, loans, and compensated absences, not due and payable in the current period and therefore are not reported in the governmental fund balance sheets, but are reported on the government-wide statement of net position (exclusive of internal service funds' debt).

| | | |
|--|-------------|-------------|
| Bonds payable | (2,970,833) | |
| Issuance discounts, premiums and deferred amount on refunding | (33,766) | |
| Accrued interest payable | (46,209) | |
| Compensated absences | (1,758,546) | |
| Pension obligations (net) | (2,103,920) | |
| Other postemployment benefits | (987,158) | |
| Net adjustment to arrive at net position - governmental activities | | (7,900,432) |

| | |
|--|-------|
| Interest receivables of governmental activities not reported in the funds. | 1,454 |
|--|-------|

| | |
|---|----------------------|
| Net position of governmental activities | <u>\$ 62,346,017</u> |
|---|----------------------|

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

CITY OF MOSES LAKE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

| | General | Street | Other Governmental Funds | Total Governmental Funds |
|--|---------------|-------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 16,469,217 | \$ - | \$ 723,370 | \$ 17,192,587 |
| Licenses and Permits | 873,332 | 95,104 | - | 968,436 |
| Intergovernmental revenues | 348,753 | 688,079 | 305,968 | 1,342,800 |
| Charges for services | 3,044,094 | 10,814 | 323,661 | 3,378,569 |
| Fines and forfeits | 445,816 | - | 144 | 445,960 |
| Interest earnings | 233,352 | - | 1,883 | 235,235 |
| Rents and royalties | 98,588 | - | - | 98,588 |
| Contributions/donations | - | - | 90,498 | 90,498 |
| Assessments | - | - | 50,220 | 50,220 |
| Miscellaneous | 13,911 | 9,824 | 16,187 | 39,922 |
| Total revenues | 21,527,063 | 803,821 | 1,511,931 | 23,842,815 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 2,512,252 | - | 1,000 | 2,513,252 |
| Public safety | 9,147,643 | - | 250,550 | 9,398,193 |
| Public works | 1,702,593 | - | - | 1,702,593 |
| Transportation | - | 1,905,200 | 896,484 | 2,801,684 |
| Economic environment | 1,164,825 | - | - | 1,164,825 |
| Culture and recreation | 5,158,288 | - | 31,750 | 5,190,038 |
| Capital outlay | 90,255 | 8,256 | 17,064 | 115,575 |
| Debt service: | | | | |
| Principal | - | - | 246,765 | 246,765 |
| Interest and debt issue costs | 31,726 | - | 120,853 | 152,579 |
| Total expenditures | 19,807,582 | 1,913,456 | 1,564,466 | 23,285,504 |
| Excess (deficiency) of revenues over (under) expenditures | 1,719,481 | (1,109,635) | (52,535) | 557,311 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 548,931 | 1,173,200 | 761,098 | 2,483,229 |
| Transfers (out) | (1,540,740) | (148,400) | (384,229) | (2,073,369) |
| Total other financing sources (uses) | (991,809) | 1,024,800 | 376,869 | 409,860 |
| Net change in fund balances | 727,672 | (84,835) | 324,334 | 967,171 |
| Fund balances-beginning | 2,407,368 | 428,261 | 1,518,677 | 4,354,306 |
| Prior Period Adjustments | - | 171,441 | - | 171,441 |
| Change in Accounting Principle | 318,517 | - | - | 318,517 |
| Fund balances-ending | \$ 3,453,557 | \$ 514,867 | \$ 1,843,011 | \$ 5,811,435 |

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

CITY OF MOSES LAKE
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Government-wide Statement of Activities
For the Year Ended December 31, 2016

Net changes in fund balances - total governmental funds: \$ 967,171

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

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

| | | |
|--|-----------|-----------|
| Capital outlay | 115,575 | |
| Depreciation expense | (695,677) | |
| Net increase in net position - governmental activities | | (580,102) |

| | | |
|---|--|---------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement. | | 861,755 |
|---|--|---------|

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

| | | |
|--|---------|---------|
| Contributed assets | 655,090 | |
| Gain(loss) on sale/disposals of assets | - | |
| Net increase in net position - governmental activities | | 655,090 |

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

| | | |
|--|---------|---------|
| Lease/Bond proceeds reported as debt | - | |
| Discount on Bonds paid out | - | |
| Debt issue costs paid out | - | |
| Debt principal payments | 246,765 | |
| Net increase in net position - governmental activities | | 246,765 |

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.

| | | |
|--|-----------|-----------|
| Pension | (380,111) | |
| Other post employment benefits | (68,846) | |
| Accrued debt interest | 4,076 | |
| Compensated absences | (103,934) | |
| Amortization of deferred bond costs | 3,377 | |
| Net decrease in net position - governmental activities | | (545,438) |

| | | |
|--|--|-------|
| Accrued interest revenue in the statement of net activities does not provide current financial resources and is not reported as revenue in governmental funds. | | (427) |
|--|--|-------|

Internal service funds are used by management to charge the costs of equipment, insurance, data processing, and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

| | | |
|--|-----------|---------|
| Internal service funds change in net position | 1,198,059 | |
| Loss(gain) from charges to business-type activities | (681,843) | |
| Net increase in net position - governmental activities | | 516,216 |

| | | |
|---|--|---------------------|
| Change in net position in governmental activities | | <u>\$ 2,121,030</u> |
|---|--|---------------------|

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

CITY OF MOSES LAKE
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended December 31, 2016

| | Budget Amounts | | Actual | Variance with |
|--|----------------|---------------|---------------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 15,174,000 | \$ 15,174,000 | \$ 16,469,217 | \$ 1,295,217 |
| Licenses and Permits | 500,200 | 500,200 | 873,332 | 373,132 |
| Intergovernmental revenues | 197,500 | 197,500 | 348,753 | 151,253 |
| Charges for services | 2,801,300 | 2,801,300 | 3,044,094 | 242,794 |
| Fines and forfeits | 457,000 | 457,000 | 445,816 | (11,184) |
| Interest earnings | 180,000 | 180,000 | 233,352 | 53,352 |
| Rents and royalties | 140,300 | 140,300 | 98,588 | (41,712) |
| Miscellaneous | - | - | 13,911 | 13,911 |
| Total revenues | 19,450,300 | 19,450,300 | 21,527,063 | 2,076,763 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 2,444,200 | 2,605,200 | 2,512,252 | 92,948 |
| Public safety | 8,606,400 | 9,062,600 | 9,147,643 | (85,043) |
| Public works | 1,976,400 | 2,006,000 | 1,702,593 | 303,407 |
| Economic environment | 1,253,600 | 1,164,200 | 1,164,825 | (625) |
| Culture and recreation | 5,617,900 | 5,471,900 | 5,158,288 | 313,612 |
| Capital outlay | - | 115,520 | 90,255 | 25,265 |
| Debt service: | | | | |
| Interest and debt issue costs | 31,700 | 31,700 | 31,726 | (26) |
| Total expenditures | 19,930,200 | 20,457,120 | 19,807,582 | 649,538 |
| Excess (deficiency) of revenues over (under) expenditures | (479,900) | (1,006,820) | 1,719,481 | 2,726,301 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 534,700 | 534,700 | 548,931 | 14,231 |
| Transfers (out) | (1,892,500) | (1,981,500) | (1,540,740) | 440,760 |
| Total other financing sources (uses) | (1,357,800) | (1,446,800) | (991,809) | 454,991 |
| Net change in fund balances | (1,837,700) | (2,453,620) | 727,672 | 3,181,292 |
| Fund balances-beginning | 2,754,100 | 2,754,100 | 2,407,368 | (346,732) |
| Change in Accounting Principle | - | - | 318,517 | 318,517 |
| Fund balances-ending | \$ 916,400 | \$ 300,480 | \$ 3,453,557 | \$ 3,153,077 |

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

CITY OF MOSES LAKE**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Street Fund****For the Year Ended December 31, 2016**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------|----------------|---|
| | Original | Final | Amounts | |
| REVENUES | | | | |
| Licenses and Permits | \$ 17,000 | \$ 17,000 | \$ 95,104 | \$ 78,104 |
| Intergovernmental revenues | 500,000 | 725,000 | 688,079 | (36,921) |
| Charges for services | 24,000 | 24,000 | 10,814 | (13,186) |
| Miscellaneous | - | - | 9,824 | 9,824 |
| Total revenues | 541,000 | 766,000 | 803,821 | 37,821 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Transportation | 1,846,300 | 1,935,600 | 1,905,200 | 30,400 |
| Capital outlay | - | 8,000 | 8,256 | (256) |
| Total expenditures | 1,846,300 | 1,943,600 | 1,913,456 | 30,144 |
| Excess (deficiency) of revenues over (under) expenditures | (1,305,300) | (1,177,600) | (1,109,635) | 67,965 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 1,173,200 | 1,173,200 | 1,173,200 | - |
| Transfers (out) | (148,400) | (148,400) | (148,400) | - |
| Total other financing sources (uses) | 1,024,800 | 1,024,800 | 1,024,800 | - |
| Net change in fund balances | (280,500) | (152,800) | (84,835) | 67,965 |
| Fund balances-beginning | 298,700 | 298,700 | 428,261 | 129,561 |
| Prior Period Adjustments | - | - | 171,441 | 171,441 |
| Fund balances-ending | \$ 18,200 | \$ 145,900 | \$ 514,867 | \$ 368,967 |

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

CITY OF MOSES LAKE
Statement of Net Position
Proprietary Funds
December 31, 2016

ASSETS

Current assets:

Cash and cash equivalents
Receivables (net of allowance for uncollectibles)
Interfund balances receivable
Interfund loans receivable
Intergovernmental receivable
Inventory
Other receivables
Total assets

| | Business-type Activities-Enterprise Funds | | | | | Governmental Activities Internal Service Funds |
|-----------------|---|------------|-----------|------------|----------------|---|
| | Water/Sewer | Sanitation | Ambulance | Airport | Storm Water | Totals |
| \$ 8,299,418 \$ | 300,654 \$ | 261,037 \$ | 86,640 \$ | 309,873 \$ | 9,257,622 \$ | 2,997,903 |
| 1,157,940 | 508,504 | 426,320 | - | 123,239 | 2,216,003 | - |
| 76,329 | - | 1,912 | - | 893 | 79,134 | - |
| 6,337,437 | - | - | - | - | 6,337,437 | - |
| - | - | - | - | - | - | 28 |
| 347,648 | 47,472 | 23,868 | - | 5,487 | 424,475 | 80,976 |
| - | 186 | - | - | - | 186 | - |
| 16,218,772 | 856,816 | 713,137 | 86,640 | 439,492 | 18,314,857 | 3,078,907 |

Noncurrent assets:

Restricted assets:
Revenue bond reserves/debt service:
Cash and cash equivalents
Total restricted assets

| | | | | | | |
|-----------|---|---|---|---|-----------|---|
| 1,310,849 | - | - | - | - | 1,310,849 | - |
| 1,310,849 | - | - | - | - | 1,310,849 | - |

Capital assets:

Land and land rights
Construction in Progress
Net of accumulated depreciation:
Buildings
Infrastructure
Machinery and equipment
Intangible assets
Total capital assets

| | | | | | | |
|------------|---|--------|---------|-----------|------------|------------|
| 836,006 | - | - | 460 | 151,438 | 987,904 | 608,951 |
| 478,002 | - | - | - | 12,871 | 490,873 | 169,481 |
| 27,752,857 | - | - | 29,923 | 314,091 | 28,096,871 | 11,597,544 |
| 45,583,015 | - | - | 281,430 | 6,276,839 | 52,141,284 | - |
| 2,909,137 | - | 97,882 | - | 16,185 | 3,023,204 | 4,534,883 |
| 285,127 | - | - | - | - | 285,127 | - |
| 77,844,144 | - | 97,882 | 311,813 | 6,771,424 | 85,025,263 | 16,910,859 |

Net pension asset

Total non current assets

| | | | | | | |
|------------|---|---------|---------|-----------|------------|------------|
| - | - | 205,697 | - | - | 205,697 | - |
| 79,154,993 | - | 303,579 | 311,813 | 6,771,424 | 86,541,809 | 16,910,859 |

Total assets

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding
Deferred Pension
Total deferred outflows of resources

| | | | | | | |
|---------------|------|------------|------|-----------|------------|--------|
| 35,306 | - | - | - | - | 35,306 | - |
| 287,351 | - | 137,683 | - | 25,781 | 450,815 | 85,937 |
| \$ 322,657 \$ | - \$ | 137,683 \$ | - \$ | 25,781 \$ | 486,121 \$ | 85,937 |

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

CITY OF MOSES LAKE
Statement of Net Position
Proprietary Funds
December 31, 2016

| | Business-type Activities-Enterprise Funds | | | | | | Governmental Activities Internal Service Funds |
|--|---|-------------|------------|------------|--------------|---------------|---|
| | Water/Sewer | Sanitation | Ambulance | Airport | Storm Water | Totals | |
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Accounts payable | \$ 689,164 | \$ 270,917 | \$ 15,871 | \$ 554 | \$ 4,639 | \$ 961,145 | \$ 74,123 |
| Salaries and benefits payable | 46,904 | 1,895 | 28,962 | - | 5,892 | 83,453 | 17,093 |
| Interfund balances payable | 3,760 | - | 2,802 | 72 | 963 | 7,597 | 75,860 |
| Interfund loans payable | - | 592,331 | 366,998 | - | - | 959,329 | 4,628,108 |
| Interest payable | - | - | - | - | - | - | 8,987 |
| Capital leases payable | - | - | - | - | - | - | 498,045 |
| G.O. bonds payable | 25,833 | - | - | - | - | 25,833 | 765,000 |
| Compensated Absences | 37,368 | 364 | 19,683 | - | 3,694 | 61,109 | 5,615 |
| Accrued interest | 131,248 | - | - | - | - | 131,248 | - |
| Intergovernmental loans payable | 561,692 | - | - | - | - | 561,692 | - |
| Revenue bonds payable | 905,000 | - | - | - | - | 905,000 | - |
| Other short-term liabilities | 70 | 48,663 | - | - | - | 48,733 | - |
| Total current liabilities | 2,381,039 | 914,170 | 434,316 | 626 | 14,988 | 3,745,139 | 6,072,831 |
| Noncurrent liabilities: | | | | | | | |
| Revenue bonds payable (net discount/premium) | 7,017,434 | - | - | - | - | 7,017,434 | - |
| G.O. bonds payable (net discount/premium) | 610,393 | - | - | - | - | 610,393 | 3,048,768 |
| Intergovernmental loans payable | 2,776,180 | - | - | - | - | 2,776,180 | - |
| Compensated absences | 336,310 | 3,279 | 177,147 | - | 33,242 | 549,978 | 50,538 |
| Net pension liability | 2,030,740 | - | - | - | 109,146 | 2,139,886 | 363,819 |
| Lease payable | - | - | - | - | - | - | 893,424 |
| Total noncurrent liabilities | 12,771,057 | 3,279 | 177,147 | - | 142,388 | 13,093,871 | 4,356,549 |
| Total liabilities | 15,152,096 | 917,449 | 611,463 | 626 | 157,376 | 16,839,010 | 10,429,380 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| Pension | 36,799 | - | - | - | 4,970 | 41,769 | 15,974 |
| Total deferred inflows of resources | 36,799 | - | - | - | 4,970 | 41,769 | 15,974 |
| NET POSITION | | | | | | | |
| Net investment in capital assets | 67,310,080 | - | 97,882 | 311,813 | 6,771,424 | 74,491,199 | 11,761,740 |
| Restricted for debt service | 1,327,160 | - | - | - | - | 1,327,160 | - |
| Unrestricted | 11,870,288 | (60,633) | 445,055 | 86,014 | 302,928 | 12,643,652 | (2,131,393) |
| Total net position | \$ 80,507,528 | \$ (60,633) | \$ 542,937 | \$ 397,827 | \$ 7,074,352 | \$ 88,462,011 | \$ 9,630,347 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | | | | |
| Net position of business-type activities | | | | | | | |
| | | | | | | | 1,706,798 |
| | | | | | | | \$ 90,168,809 |

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

CITY OF MOSES LAKE
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

| | Business-type Activities-Enterprise Funds | | | | | Governmental Activities | |
|---|---|--------------|--------------|------------|--------------|-------------------------|------------------------|
| | Water/Sewer | Sanitation | Ambulance | Airport | Storm Water | Totals | Internal Service Funds |
| OPERATING REVENUES | | | | | | | |
| Charges for services | \$ 10,114,866 | \$ 3,469,533 | \$ 2,106,970 | \$ - | \$ 841,820 | \$ 16,533,189 | \$ 5,489,331 |
| Miscellaneous | 635,446 | 1,576 | 38,617 | 25,979 | - | 701,618 | 1,111 |
| Total operating revenues | 10,750,312 | 3,471,109 | 2,145,587 | 25,979 | 841,820 | 17,234,807 | 5,490,442 |
| OPERATING EXPENSES | | | | | | | |
| Salaries and benefits | 1,998,114 | 47,040 | 1,574,237 | - | 345,886 | 3,965,277 | 1,180,483 |
| Supplies and contractual services | 2,392,965 | 3,560,955 | 802,816 | 9,793 | 344,513 | 7,111,042 | 1,017,811 |
| Utilities | 539,947 | - | - | 4,588 | 20,711 | 565,246 | 114,278 |
| Repairs and maintenance | 71,752 | - | 1,864 | 5,547 | 118,093 | 197,256 | 191,171 |
| Insurance claims and expenses | - | - | - | - | - | - | 561,842 |
| Depreciation and amortization | 2,437,968 | - | 24,027 | 31,339 | 5,704 | 2,499,038 | 1,025,840 |
| Total operating expenses | 7,440,746 | 3,607,995 | 2,402,944 | 51,267 | 834,907 | 14,337,859 | 4,091,425 |
| Operating income (loss) | 3,309,566 | (136,886) | (257,357) | (25,288) | 6,913 | 2,896,948 | 1,399,017 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| Interest and other earnings | 146,687 | 1,726 | - | - | - | 148,413 | - |
| Insurance recoveries | 75,630 | - | - | - | - | 75,630 | 32,770 |
| Intergovernmental payments | (61,961) | - | - | - | - | (61,961) | - |
| Interest expense | (360,941) | (4,340) | (2,347) | - | - | (367,628) | (234,635) |
| Miscellaneous revenues | 285,746 | - | - | - | - | 285,746 | - |
| Miscellaneous expenses | - | - | - | - | - | - | 124 |
| Gain (Loss) on disposal of Assets | - | - | - | - | - | - | (15,017) |
| Total nonoperating revenues (expenses) | 85,161 | (2,614) | (2,347) | - | - | 80,200 | (216,758) |
| Income (loss) before contributions and transfers | 3,394,727 | (139,500) | (259,704) | (25,288) | 6,913 | 2,977,148 | 1,182,259 |
| Capital contributions | 1,359,836 | - | - | - | 203,377 | 1,563,213 | - |
| Transfers in | - | - | 74,340 | - | - | 74,340 | 15,800 |
| Transfers (out) | (500,000) | - | - | - | - | (500,000) | - |
| Changes in net position | 4,254,563 | (139,500) | (185,364) | (25,288) | 210,290 | 4,114,701 | 1,198,059 |
| Net position - beginning | 76,252,965 | 78,866 | 728,301 | 423,115 | 6,864,062 | 84,269,229 | 8,432,289 |
| Net position - ending | \$ 80,507,528 | \$ (60,634) | \$ 542,937 | \$ 397,827 | \$ 7,074,352 | \$ 90,963,070 | \$ 9,630,348 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | | | 681,843 |
| Changes in net position of business-type activities | | | | | | | \$ 4,796,544 |

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

CITY OF MOSES LAKE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers
 Payment to suppliers
 Payments to employees
 Miscellaneous revenues
 Miscellaneous expenses

Net cash provided by (used for) operating activities

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments from other funds
 Payments (to) other funds
 Advances from other funds
 Transfers from other funds
 Transfers (to) other funds
 Insurance recoveries
 Other intergovernmental payments

Net cash provided by (used for) noncapital financing activities

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt
 Principal paid on debt
 Interest paid on debt
 Capital contributions
 Purchases of capital assets

Net cash provided by (used for) capital related financing activities

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, January 1

Cash and cash equivalents - December 31

| | Water/Sewer | Sanitation | Ambulance | Airport | Storm Water | Total | Governmental Activities Internal Service Funds |
|-------------|-------------|-------------|-----------|-----------|-------------|-------------|--|
| \$ | 10,302,984 | 3,402,674 | 2,359,548 | 25,979 | 834,616 | 16,925,801 | \$ 5,490,443 |
| (2,736,413) | (3,524,483) | (814,621) | (20,367) | (489,048) | (7,584,932) | (1,839,214) | (1,839,214) |
| (2,612,847) | (48,418) | (1,540,176) | - | (318,618) | (4,520,059) | (1,148,421) | (1,148,421) |
| 829,850 | 3,303 | - | - | - | 833,153 | 124 | 124 |
| (300) | - | (1,805) | - | 3,322 | 1,217 | - | - |
| 5,783,274 | (166,924) | 2,946 | 5,612 | 30,272 | 5,655,180 | 2,502,932 | 2,502,932 |
| - | 32,881 | 131,963 | 72 | 344 | 165,260 | 75,832 | 75,832 |
| (77,730) | - | - | - | - | (77,730) | - | - |
| 831,221 | - | - | - | - | 831,221 | - | - |
| - | 158,336 | 74,340 | - | - | 232,676 | 15,800 | 15,800 |
| (500,000) | - | - | - | - | (500,000) | - | - |
| 75,630 | - | - | - | - | 75,630 | 32,770 | 32,770 |
| (61,961) | - | - | - | - | (61,961) | - | - |
| 267,160 | 191,217 | 206,303 | 72 | 344 | 665,096 | 124,402 | 124,402 |
| - | - | - | - | - | - | - | - |
| (1,510,868) | - | - | - | - | (1,510,868) | 832,046 | 832,046 |
| (405,615) | (4,340) | (2,347) | - | - | (412,302) | (2,064,383) | (2,064,383) |
| 722,019 | - | - | - | - | 722,019 | (236,022) | (236,022) |
| (2,431,135) | - | (15,211) | - | (1,797) | (2,448,143) | (1,128,836) | (1,128,836) |
| (3,625,599) | (4,340) | (17,558) | - | (1,797) | (3,649,294) | (2,597,195) | (2,597,195) |
| 2,424,835 | 19,953 | 191,691 | 5,684 | 28,819 | 2,670,982 | 30,139 | 30,139 |
| 7,185,433 | 280,701 | 69,345 | 80,956 | 281,054 | 7,897,491 | 2,967,765 | 2,967,765 |
| 9,610,268 | 300,654 | 261,036 | 86,640 | 309,873 | 10,568,473 | 2,997,904 | 2,997,904 |

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

CITY OF MOSES LAKE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

| Business-type Activities- Enterprise Funds | Business-type Activities-Enterprise Funds | | | | | Governmental Activities | |
|---|---|--------------|--------------|-------------|-------------|-------------------------|------------------------|
| | Water/Sewer | Sanitation | Ambulance | Airport | Storm Water | Total | Internal Service Funds |
| \$ | 3,309,565 \$ | (136,885) \$ | (257,357) \$ | (25,289) \$ | 6,914 \$ | 2,896,948 \$ | 1,399,019 |
| | 2,437,968 | - | 24,027 | 31,339 | 5,704 | 2,499,038 | 1,025,840 |
| | 35,306 | - | - | - | - | 35,306 | - |
| | (83,520) | (66,859) | (41,838) | - | - | (41,838) | - |
| | (21,828) | 4,861 | 255,799 | - | (7,204) | 98,216 | - |
| | - | - | (5,448) | - | - | (22,415) | - |
| | (629,482) | - | - | - | 3,405 | 3,405 | 14,295 |
| | 300,494 | 31,611 | 11,390 | - | 2,031 | (616,061) | 34,945 |
| | 9,069 | 612 | (4,492) | (439) | (5,815) | 321,359 | 31,593 |
| | - | - | 8,949 | - | 1,800 | 20,430 | 2,608 |
| | 5,680 | - | (1,805) | - | (1,805) | (1,805) | - |
| | 420,022 | (1,990) | 13,721 | - | 23,437 | 40,848 | (5,490) |
| | | 1,726 | - | - | - | 421,748 | 124 |
| | 2,473,709 | (30,039) | 260,303 | 30,900 | 23,358 | 2,758,231 | 1,103,915 |
| \$ | 5,783,274 \$ | (166,924) \$ | 2,946 \$ | 5,611 \$ | 30,272 \$ | 5,655,179 \$ | 2,502,934 |
| \$ | 637,817 \$ | - \$ | - \$ | - \$ | 203,377 \$ | 841,194 \$ | - |
| \$ | - \$ | - \$ | - \$ | - \$ | - \$ | - \$ | 1,090,000 |

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities

| | |
|--|--|
| Operating income (loss) | |
| Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities: | |
| Depreciation | |
| Loss on refunding | |
| Allowance for uncollectible accounts | |
| Decrease (increase) in accounts receivable | |
| Decrease (increase) in inventory | |
| Decrease (increase) in prepaid expenses | |
| Decrease (increase) in pension liability | |
| (Decrease) increase in accounts payable | |
| (Decrease) increase in salaries payable | |
| (Decrease) increase in advances | |
| (Decrease) increase in compensated absences | |
| (Decrease) increase in miscellaneous revenues | |
| Total adjustments | |

Net cash provided by (used for) operating activities
Noncash investing, capital, and financing activities:
Contributions of capital assets
Addition to capital leases

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

CITY OF MOSES LAKE
Statement of Net Position
Fiduciary Funds
December 31, 2016

| | Agency Funds |
|----------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,120,276 |
| Total assets | <u>1,120,276</u> |
| LIABILITIES | |
| Custodial accounts payable | <u>1,120,276</u> |
| Total liabilities | <u>\$ 1,120,276</u> |

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

CITY OF MOSES LAKE
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; (2) the City is legally entitled to, or can otherwise access, the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resource's measurement focus and the accrual basis of accounting, as 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

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

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

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

The **Airport Fund** accounts for the operation and maintenance of a municipal airport located within the City limits. The fund is supported with rental charges.

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

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

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

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

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

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

Agency Funds are custodial in nature, representing assets held by the City in an agency capacity for the State of Washington, Grant County and others. These funds report only assets and liabilities and have no measurement focus as the purpose of this type of fund is to simply receive and disburse funds belonging to another organization.

As a general rule the effect of the Interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is administrative overhead charges where the amounts are reasonably equivalent in value to the interfund services provided. Interfund charges for governmental services, including utilities and certain internal services, have not been eliminated. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues for enterprise funds are customer charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

Scope of Budget

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

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

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

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

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

Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, 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 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 public hearing(s).

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

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

E. Assets, Liabilities and Equities

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding \$19,245,096 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds that are statutorily to receive interest and the balance of the interest is credited to the General Fund.

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

Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefitted. As of December 31, 2016, there were no special assessment receivables delinquent.

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

organizations for goods and services rendered. Unbilled service receivables are recorded at year end.

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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of Interfund loans receivable and payable is furnished in *Note No. 14, Interfund Balances and Transfers*.

Loans between funds, as reported in the fund financial statements, are included as a liability in applicable governmental funds so that the indicated fund balance represents amounts available for appropriation and expendable available financial resources.

Inventories

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

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year is \$747,391.

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

| Assets | Years |
|---|---------|
| Buildings/Improvements | 5 - 50 |
| Other Improvements | 5 - 25 |
| Vehicles | 5 - 15 |
| Machinery & Equipment | 5 - 20 |
| Utility Infrastructure | 20 - 50 |
| Streets, Paths, Trails, Stormwater Infrastructure | N/A |
| Traffic Signals | 40 |
| Runways & Taxiways | 12 - 20 |

Infrastructure capital assets, valued at \$50,000 or greater, are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in the City's infrastructure are the streets and the bridge network. The City has elected to use the modified approach as defined in GASB Statement No. 34 for infrastructure reporting for storm water structures, the bridge, paved streets, bike paths, and alleys. Depreciation expenses are not reported for such assets nor are amounts capitalized in connection with improvements that lengthen the lives of the assets unless the improvements also increase the service potential.

Deferred Outflows and Inflows of Resources

Deferred inflows of resources: A deferred inflow of resources is an acquisition of net position by the government, which is applicable to a future reporting period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

| | |
|---|--------------------|
| Property taxes (General Fund) | \$1,366,489 |
| Traffic Citations (General Fund) | <u>750,982</u> |
| Total governmental deferred inflow of resources | <u>\$2,117,471</u> |

At December 31, 2016, the city has reported deferred outflows of resources and deferred inflows of resources as follows:

| | |
|--|---------------------|
| Deferred outflow on pensions Governmental | \$ 1,316,528 |
| Deferred outflow on pensions Business-Type | <u>450,816</u> |
| Total deferred outflow on pensions | <u>\$ 1,767,344</u> |

| | |
|---|-------------------|
| Deferred inflow on pensions Governmental | \$ 123,902 |
| Deferred inflow on pensions Business-Type | <u>41,769</u> |
| Total deferred outflow on pensions | <u>\$ 165,671</u> |

| | |
|--|-------------------|
| Deferred outflow loss on refunding Governmental | \$ 176,530 |
| Deferred outflow loss on refunding Business-Type | <u>35,306</u> |
| Total deferred outflow on pensions | <u>\$ 211,836</u> |

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. 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 two years of earned annual leave, is payable upon separation of employment for any reason. Sick leave may be accumulated up to 480 hours for a payoff of exempt employees, and is payable upon voluntary termination with a minimum of 2 weeks notice or a reduction in work force in accordance with the following schedule:

| Years of Service | Percent Payable Sick Leave |
|------------------|----------------------------|
| 0-4 | 10 |
| 5-9 | 25 |
| 10-19 | 50 |
| 20-29 | 75 |
| 30+ | 100 |

For members of the General Union bargaining unit who were City employees and members of the Public Employees Retirement System as of January 1, 1983 and who retire, 50% of accumulated sick leave (to a maximum of 480 hours) will be paid as severance pay.

Pensions

Pensions For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Long-term Debt See Note 9 *Long-term Debt*

Unearned Revenues

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenues reported in the governmental funds consists of \$ 37,667 in street reimbursements receivable and \$ 57,699 in general invoiced and court receivables.

Fund Balance Classification

Fund balance for governmental funds is reported in the following classifications depicting the relative strength of the constraints which control how specific amounts can be spent

- *Non-spendable* includes fund balances cannot be spent either because they are not in a spendable form or because of legal or contractual constraints.
- *Restricted* includes fund balances are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- *Committed* includes fund balances are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the City Council, and does not lapse at year-end. Fund balance commitments are established, modified or rescinded by City Council action through passage of an ordinance.
- *Assigned* includes fund balances are intended to be used for specific purposes that are neither considered restricted or committed. Fund balances may be assigned by the City Manager or the Finance Director.
- *Unassigned* includes fund balance is the residual amount of the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

Minimum Fund Balance

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

F. Adoption of New GASB Pronouncements

The City implemented the following GASB Pronouncements that were applicable, for the fiscal year ended December 31, 2016.

Statement No. 73

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: The requirements of this statement that address accounting and financial reporting by employers and governmental non employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

(Issued 06/15)

As a result of implementation of Statement No. 73, the effect of the change in accounting principle was an increase in the 2015 ending fund balance of the General Fund and ending Net Position of Governmental Funds of \$318,517.

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

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

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Budgetary Compliance Information

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

July- A request is sent by the Finance Director to all Department Directors to prepare detailed estimates of revenues and expenditures for the next fiscal year (calendar year). (RCW 35A.33.030 requires this by the second Monday in September.)

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

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

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

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

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

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

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

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

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

Final hearing on the proposed budget. (RCW 35.33.071 & 35A.33.070, on or before first Monday of December.)

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

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

At December 31, 2016, the bank balance was \$1,295,128. Of the bank balance \$250,000 was covered by Federal Depository Insurance that are insured, registered or held by the City or its agent in the City's name. The remainder of the bank balance was covered by the State of Washington Public Deposit Protection Commission which includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the City's name.

GASB Statement No.79 Certain External Investment Pools and Pool Participants, allows the City to report its investment with the WA State Investment Pool (LGIP) at amortized cost. The City of Moses Lake is also reporting its investment in Grant County Investment Pool (GCIP) at amortized cost rather than fair value because the difference between amortized cost and fair value is insignificant. There are no limitations or restrictions on either pool.

As of December 31, 2016 the City had the following investments:

| Investment Type | Amortized Value | Rating | Weighted Average Maturity (days) |
|-------------------------------------|----------------------|-----------|----------------------------------|
| Grant County Invest Pool | \$ 11,646,660 | not rated | 18 |
| WA State Invest Pool | 7,598,436 | not rated | 12 |
| Total Fair Value | <u>\$ 19,245,096</u> | | |
| Portfolio Weighted Average Maturity | | | 15.21 |

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

Credit Risk: Safety of principle is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Washington State Investment Pool, is like a 2a-7 fund, managed by the State Treasurer's Office is limited to high quality obligations with limited maximum and average maturities which is to minimize both market and credit risk. The pool is unrated but the State of Washington's Legislature has regulatory oversight. The City's general obligation bonds were rated "A+" affirming a stable outlook by Standards and Poor's rating services in 2017. The same rating agency has rated the City's Revenue Bonds "AA-" affirming a stable outlook in 2015.

Under the City's investment policy, all temporary cash surpluses are invested. The City's investment policy is more conservative to limit risk, investing the portfolio in treasury notes and bills, certificates of deposit with qualified public depositories, and bankers acceptances with a credit rating for A1 or P1 by nationally recognized rating organizations. The City's investments are in compliance with all state investment laws and City investment policies.

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

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

NOTE 5 - PROPERTY TAXES

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

Property Tax Calendar

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

Outstanding property tax is recorded as a receivable and deferred inflow of resources with a 60 day accrual. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.6 per \$1,000 of assessed valuation for general governmental services.

The City's regular levy for 2016 was \$3.17074 per \$1,000 on an assessed valuation of \$2,143,919,575 for

a total regular levy of \$6,797,813.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital Assets

A summary of Governmental capital assets for the year ended December 31, 2016 were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------------------|-------------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets Not Depreciated: | | | | |
| Land | \$ 5,560,986 | \$ - | \$ - | \$ 5,560,986 |
| Infrastructure* | 38,145,311 | 655,090 | - | 38,800,402 |
| CIP | 9,190 | 1,167,420 | 968,545 | 208,065 |
| Total Capital Assets not Depreciated | <u>43,715,487</u> | <u>1,822,511</u> | <u>968,545</u> | <u>44,569,453</u> |
| Capital Assets Depreciated: | | | | |
| Buildings | 34,672,337 | - | - | 34,672,337 |
| Intangible | 147,051 | - | - | 147,051 |
| Machinery and Equipment | 13,233,302 | 1,045,536 | 80,236 | 14,198,603 |
| Infrastructure | 1,681,182 | - | - | 1,681,182 |
| Total | <u>49,733,872</u> | <u>1,045,536</u> | <u>80,236</u> | <u>50,699,173</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 12,660,342 | 944,270 | - | 13,604,612 |
| Intangible | 147,051 | - | - | 147,051 |
| Machinery and Equipment | 8,627,594 | 733,928 | 65,217 | 9,296,305 |
| Infrastructure | 969,303 | 43,319 | - | 1,012,622 |
| Total Accumulated Depreciation | <u>22,404,290</u> | <u>1,721,517</u> | <u>65,217</u> | <u>24,060,590</u> |
| Total Capital Assets Depreciated, Net | <u>27,329,582</u> | <u>(675,981)</u> | <u>15,018</u> | <u>26,638,583</u> |
| Governmental Activities Capital Assets, Net | \$ <u>71,045,069</u> | \$ <u>1,146,530</u> | \$ <u>983,563</u> | \$ <u>71,208,036</u> |
| | | Less associated debt | | (7,968,964) |
| | | Capital assets net of debt | | <u>\$63,239,072</u> |

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

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

| Governmental Activities | Depreciation |
|---|---------------------|
| General Government | \$ 38,935 |
| Public Safety | 22,542 |
| Transportation | 46,486 |
| Public Works | 5,661 |
| Culture and Recreation | 582,052 |
| Capital Assets Held by the Government's Internal Service Funds, charged to the various functions based on usage | 1,025,840 |
| Total Depreciation - Governmental Activities | <u>\$ 1,721,516</u> |

A summary of Business-type capital assets for the year ended December 31, 2016 were as follows:

| Business-type Activities | Beginning Balance | Increase | Decreases | Ending Balance |
|--|----------------------|----------------------------|---------------------|----------------------|
| Capital Assets Not Depreciated: | | | | |
| Land | \$ 987,904 | \$ - | \$ - | \$ 987,904 |
| Infrastructure | 5,848,336 | 428,503 | - | 6,276,839 |
| CIP | 1,095,976 | 3,274,041 | 3,879,144 | 490,873 |
| Intangible | 285,127 | | | 285,127 |
| Total Capital Assets not Depreciated | <u>8,217,343</u> | <u>3,702,544</u> | <u>3,879,144</u> | <u>8,040,743</u> |
| Capital Assets Depreciated: | | | | |
| Buildings | 40,619,155 | 138,246 | 40,000- | 40,717,401 |
| Machinery and Equipment | 3,715,878 | 700,467 | - | 4,416,344 |
| Infrastructure | 71,825,372 | 2,627,140 | - | 74,452,512 |
| Total | <u>116,160,404</u> | <u>3,465,853</u> | <u>40,000</u> | <u>119,586,257</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 11,827,523 | 833,007 | 40,000 | 12,620,530 |
| Machinery and Equipment | 1,218,460 | 174,680 | - | 1,393,140 |
| Infrastructure | 27,096,715 | 1,491,351 | - | 28,588,066 |
| Total Accumulated Depreciation | <u>40,142,698</u> | <u>2,499,038</u> | <u>40,000</u> | <u>42,601,736</u> |
| Total Capital Assets Depreciated, Net | <u>76,017,706</u> | <u>966,815</u> | <u>-</u> | <u>76,984,521</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 84,235,049</u> | <u>\$ 4,669,359</u> | <u>\$ 3,879,144</u> | <u>\$ 85,025,264</u> |
| | | Less associated debt | | (10,534,065) |
| | | Capital assets net of debt | | <u>\$74,491,199</u> |

Depreciation expense charged to Business Type Activities were as follows:

| <u>Business-Type Activities</u> | <u>Depreciation</u> |
|---|---------------------|
| Water/Sewer | \$ 2,437,968 |
| Storm water | 5,704 |
| Ambulance | 24,027 |
| Airport | 31,339 |
| Total Depreciation - Business-Type Activities | <u>\$ 2,499,038</u> |

Collections Not Capitalized

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

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

Construction Commitments

The City has active construction projects as of December 31, 2016. Active projects are: Sand Dunes WWTF Headworks, Winona Lift Station - 2016, Larson Water Meter Project - 2016, and Stormwater Repair - 2016. At year-end the government's commitments with contractors are as follows:

| <u>Project</u> | <u>Total Contract Amount Awarded</u> | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|-----------------------------------|--|--------------------------|---------------------------------|
| Sand Dunes WWTF Headworks | \$ 26,355 | \$ 13,183 | \$ 13,172 |
| Winona Lift Station | 14,995 | 10,931 | 4,064 |
| Sand Dunes WWTF Headworks | 52,630 | 37,651 | 14,980 |
| Winona Lift Station - 2016 | 224,037 | 0 | 224,037 |
| Larson Water Meter Project - 2016 | 247,842 | 213,193 | 34,649 |
| Stormwater Repair - 2016 | 106,508 | 75,916 | 30,592 |
| Totals | <u>\$ 672,367</u> | <u>\$ 350,874</u> | <u>\$ 321,493</u> |

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

| Aggregate Pension Amounts – All Plans | |
|--|---------------|
| Pension liabilities | \$(6,816,589) |
| Pension assets | \$ 1,291,999 |
| Deferred outflows of resources | \$ 1,767,344 |
| Deferred inflows of resources | \$ (165,671) |
| Pension expense/expenditures | \$ 982,550 |

State Sponsored Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 1 | | |
|-----------------------------------|-----------------|------------------|
| Actual Contribution Rates: | Employer | Employee* |
| PERS Plan 1 | 6.23% | 6.00% |
| PERS Plan 1 UAAL | 4.77% | 6.00% |
| Administrative Fee | 0.18% | |
| Total | 11.18% | 6.00% |

* For employees participating in JBM, the contribution rate was 12.26%

The City's actual contributions to the plan were \$333,872 for the year ended December 31, 2016.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 2/3 | | |
|-----------------------------------|---------------------|--------------------|
| Actual Contribution Rates: | Employer 2/3 | Employee 2* |
| PERS Plan 2/3 | 6.23% | 6.12% |
| PERS Plan 1 UAAL | 4.77% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | varies |
| Total | 11.18% | 6.12% |

* For employees participating in JBM, the contribution rate was 15.30%

The City's actual contributions to the plan were \$423,024 for the year ended December 31, 2016.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. 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. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| LEOFF Plan 2 | | |
|-----------------------------------|-----------------|-----------------|
| Actual Contribution Rates: | Employer | Employee |
| State and local governments | 5.05% | 8.41% |
| Administrative Fee | .18% | |
| Total | 5.23% | 8.41% |
| Ports and Universities | 8.41% | 8.41% |
| Administrative Fee | 0.18% | |
| Total | 8.59% | 8.41% |

The City's actual contributions to the plan were \$259,097 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$ 637,053.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the non duty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session..

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income | 20% | 1.70% |
| Tangible Assets | 5% | 4.40% |
| Real Estate | 15% | 5.80% |
| Global Equity | 37% | 6.60% |
| Private Equity | 23% | 9.60% |
| | 100% | |

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------|-----------------------|------------------------------------|-----------------------|
| PERS 1 | \$ 3,832,838 | \$ 3,178,406 | \$ 2,615,227 |
| PERS 2/3 | \$ 6,698,550 | \$ 3,638,184 | \$(1,893,885) |
| LEOFF 1 | \$ (187,012) | \$ (314,814) | \$ (424,056) |
| LEOFF 2 | \$ 2,740,296 | \$ (977,185) | \$(3,779,086) |

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a total pension liability of \$(6,816,589) for its proportionate share of the net pension liabilities as follows:

| | Liability (or Asset) |
|----------|-----------------------------|
| PERS 1 | \$3,178,406 |
| PERS 2/3 | \$3,638,184 |
| LEOFF 1 | \$ (314,814) |
| LEOFF 2 | \$ (977,185) |

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

| | LEOFF 1 Asset | LEOFF 2 Asset |
|---|----------------------|----------------------|
| Employer's proportionate share | \$ (314,814) | \$ (977,185) |
| State's proportionate share of the net pension liability/(asset) associated with the employer | \$(2,129,395) | \$ (637,053) |
| TOTAL | \$(2,444,209) | \$(1,614,238) |

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

| | Proportionate Share 6/30/15 | Proportionate Share 6/30/16 | Change in Proportion |
|----------|------------------------------------|------------------------------------|-----------------------------|
| PERS 1 | .058% | .059% | .001% |
| PERS 2/3 | .072% | .072% | .000% |
| LEOFF 1 | .031% | .030% | -.001% |
| LEOFF 2 | .175% | .168% | -.007% |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 6, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

| | Pension Expense |
|----------|-----------------|
| PERS 1 | \$ 184,461 |
| PERS 2/3 | \$ 490,710 |
| LEOFF 1 | \$ (31,291) |
| LEOFF 2 | \$ 338,670 |
| TOTAL | \$ 982,550 |

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$ | \$ |
| Net difference between projected and actual investment earnings on pension plan investments | \$80,027 | \$ |
| Changes of assumptions | \$ | \$ |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ | \$ |
| Contributions subsequent to the measurement date | \$142,662 | \$ |
| TOTAL | \$222,689 | \$ |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$193,731 | \$(120,102) |
| Net difference between projected and actual investment earnings on pension plan investments | \$445,209 | \$ |
| Changes of assumptions | \$37,604 | \$ |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ | \$(45,569) |
| Contributions subsequent to the measurement date | \$182,824 | \$ |
| TOTAL | \$859,367 | \$(165,671) |

| LEOFF 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$ | \$ |
| Net difference between projected and actual investment earnings on pension plan investments | \$32,000 | \$ |
| Changes of assumptions | \$ | \$ |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ | \$ |
| Contributions subsequent to the measurement date | \$ | \$ |
| TOTAL | \$32,000 | \$ |

| LEOFF 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$133,901 | \$ |
| Net difference between projected and actual investment earnings on pension plan investments | \$351,142 | \$ |
| Changes of assumptions | \$3,684 | \$ |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$55,681 | \$ |
| Contributions subsequent to the measurement date | \$108,880 | \$ |
| TOTAL | \$653,288 | \$ |

| All Plans | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$327,631 | \$(120,102) |
| Net difference between projected and actual investment earnings on pension plan investments | \$908,378 | \$ |
| Changes of assumptions | \$41,288 | \$ |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$55,681 | \$(45,569) |
| Contributions subsequent to the measurement date | \$434,366 | \$ |
| TOTAL | \$1,767,344 | \$(165,671) |

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows :

| Year ended December 31: | PERS Plan 1 | PERS Plan 2/3 | LEOFF Plan 1 | LEOFF Plan 2 |
|----------------------------|----------------|------------------|-----------------|-----------------|
| 2017 | \$ (19,704) | \$ (16,083) | \$ (6,613) | \$ 6,633 |
| 2018 | \$ (19,704) | \$ (16,083) | \$ (6,613) | \$ 6,633 |
| 2019 | \$ 73,496 | \$ 332,271 | \$ 27,715 | \$301,547 |
| 2020 | \$ 45,940 | \$ 210,767 | \$ 17,512 | \$211,164 |
| 2021 | \$ | \$ | \$ | \$ 18,432 |
| Thereafter | | | | \$ |

Local Governments Firemens' Pension Plan

The City of Moses Lake is also the administrator of a pension retirement plan called Firemen's Pension Plan which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.16 and 41.18. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. These benefit provisions are established by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was established.

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

Membership of the Firemen's Pension Plan December 31, 2016

| | |
|--|---|
| Retirees currently receiving full retirement benefits through LEOFF..... | 6 |
| Retirees receiving benefits through both LEOFF and FPP..... | 2 |
| Beneficiaries receiving benefits through FPP..... | 1 |
| Active plan members'..... | 0 |

Contributions

Current contributions to the plan are comprised of interest on investments and the state tax on fire insurance. Pension payments increase by Cost of Living Allowances (COLAs) from the Washington State Retirement system. Medical insurance premiums and service costs were paid from the general fund fire department in 2015, therefore 2015 forward, 100% of pension fund assets are available for pension payments. COLAs are capped at three percent and will remain below projected increases in Medical Insurance Premiums. Assets, medical service costs, and premiums from the Firemen's Pension Plan are as follows:

Schedule of Funding Progress for Firemens' Pension Plan

| Actuarial Valuation Date | Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---------------------------|---|------------------------------------|--------------------------|---------------------------|---|
| 12/31/2015 | \$318,517 | \$146,871 | (\$171,646) | 217% | \$- | N/A |
| 12/31/2016 | \$330,371 | \$153,324 | (\$177,047) | 215% | \$- | N/A |

2015 first year of actuarial valuation of pension plan without OPEB

Schedule of Employer Contributions for the Firemens' Pension Plan

| Fiscal Year Ending | Actual Employer Contribution | Fire Insurance Premiums | Total Employer Contributions | Annual Required Contributions (ARC) | Percentage of ARC Contributed |
|--------------------------|------------------------------------|-------------------------------|------------------------------------|--|-------------------------------------|
| 12/31/2015 | \$- | \$29,272 | \$29,272 | (\$10,105) | 290% |
| 12/31/2016 | \$- | \$28,586 | \$28,586 | (\$8,534) | 335% |

2015 first year of actuarial valuation of pension plan without OPEB

Annual Pension Cost and Net Pension Obligation for the Firemens' Pension Plan

| | Fiscal Year Ending 12/31/2016 |
|---|----------------------------------|
| Annual required contribution (ARC) | |
| 1. Amortization of UAAL-beginning of year | \$ -10,078 |
| 2. Interest to end of year | -142 |
| 3. ARC at end of year | -10,221 |
| 4. Interest on NPO | -555 |
| 5. Adjustment to ARC | 2,242 |
| 6. Annual pension cost | -8,534 |
| 7. Employer Contributions | 28,586 |
| 8. Change in NPO | -37,120 |
| 9. NPO at beginning of year | -39,377 |
| 10. NPO at end of year | \$ -76,497 |

Net Pension Obligation Trend Information

| Fiscal Year Ended | Annual Pension Cost (APC) | Annual Pension Costs Contributed | Contribution as a Percent of APC | Net Pension Obligation (NPO) |
|----------------------|------------------------------------|--|--|---------------------------------------|
| 12/31/2014 | N/A | \$28,955 | N/A | N/A |
| 12/31/2015 | (\$10,105) | \$29,272 | 290% | (\$39,377) |
| 12/31/2016 | (\$8,534) | \$28,586 | 335% | (\$76,497) |

2015 first year of actuarial valuation of pension plan without OPEB

Deferred Compensation Plans

The City of Moses Lake offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Employees are offered a choice of plans with ICMA Retirement Corporation or the State of Washington Deferred Compensation Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The plan's funds, held in trust for the exclusive benefit of the participants and their beneficiaries, are not included in the presentation of the City's financial reports.

NOTE 8 - RISK MANAGEMENT

The City of Moses Lake is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 REW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 168 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

The City of Moses Lake maintains insurance against most normal hazards except for unemployment compensation where the City has elected to become self-insured. The City also has set aside monies for possible future self-insurance for accident insurance and this self-insures the first \$50,000. Claims are processed by independent claims managers. Based on the claims manager's estimates, the City's estimated liability for possible losses at December 31, 2016 were as follows:

| | |
|---------------------------|----------|
| Unemployment Compensation | \$84,460 |
|---------------------------|----------|

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

| 2014 | 2015 | 2016 |
|----------|----------|----------|
| \$27,484 | \$58,455 | \$26,993 |

NOTE 9 - LONG-TERM DEBT

A. Long Term Debt

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

General obligation bonds currently outstanding are as follows:

| Name of Issuance | Purpose | Issuance Date | Maturity Date | Original Debt | Interest Rate | Amount Outstanding |
|-----------------------|--------------------------------------|---------------|---------------|----------------------|---------------|---------------------|
| 2010 LTGO Bond | Civic Center | 09/07/2010 | 12/01/2020 | 5,925,000 | 2.00-3.25% | 2,545,000 |
| 2012 LTGO Bond | Gov't'l - Internal Service Refunding | 12/12/2012 | 09/01/2023 | 1,650,000 | .75-3.00% | 1,170,000 |
| 2015 LTGO Bond | Gov't'l Activities Refunding | 07/14/2015 | 08/01/2026 | 2,970,833 | 3.00-4.00% | 2,970,833 |
| 2015 LTGO Bond | Operation Complex Refunding | 07/14/2015 | 08/01/2026 | 594,167 | 3.00-4.00% | 594,167 |
| Total | | | | <u>\$ 11,140,000</u> | | <u>\$ 7,280,000</u> |

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

| Year | Governmental Activities | | Business-Type Activities | | Totals |
|-----------|-------------------------|--------------|--------------------------|------------|--------------|
| | Principal | Interest | Principal | Interest | |
| 2017 | \$ 894,167 | \$ 214,396 | \$ 25,833 | \$ 21,192 | \$ 1,155,588 |
| 2018 | 1,060,000 | 190,646 | 55,000 | 20,417 | 1,326,063 |
| 2019 | 1,092,500 | 160,446 | 57,500 | 18,767 | 1,329,213 |
| 2020 | 1,125,833 | 127,671 | 59,167 | 17,042 | 1,329,713 |
| 2021 | 475,000 | 92,233 | 60,000 | 15,267 | 642,500 |
| 2022-2025 | 1,671,666 | 209,217 | 263,334 | 38,633 | 2,182,850 |
| 2026 | 366,667 | 14,667 | 73,333 | 2,933 | 457,600 |
| Total | \$ 6,685,833 | \$ 1,009,276 | \$ 594,167 | \$ 134,251 | \$ 8,423,527 |

Revenue bonds currently outstanding are as follows:

| Bond | Issuance Date | Maturity Date | Original Debt | Interest Rate | Balance |
|--------------------|---------------|---------------|----------------------|---------------|---------------------|
| Revenue Bonds 2004 | 10/13/2004 | 9/1/2024 | \$ 7,015,000 | 5.00% | \$ 5,135,000 |
| Revenue Bonds 2011 | 8/23/2011 | 8/23/2021 | 4,905,000 | 2.50-3.25% | 2,580,000 |
| Total | | | <u>\$ 11,920,000</u> | | <u>\$ 7,715,000</u> |

Revenue bond debt service requirements to maturity are as follows:

| Year | Principal | Interest | Total |
|-----------|---------------------|---------------------|---------------------|
| 2017 | \$ 905,000 | \$ 330,625 | \$ 1,235,625 |
| 2018 | 935,000 | 298,850 | 1,233,850 |
| 2019 | 975,000 | 263,350 | 1,238,350 |
| 2020 | 1,015,000 | 226,188 | 1,241,188 |
| 2021 | 1,060,000 | 184,713 | 1,244,713 |
| 2022-2025 | 2,825,000 | 313,750 | 3,138,750 |
| Total | <u>\$ 7,715,000</u> | <u>\$ 1,617,476</u> | <u>\$ 9,332,476</u> |

Per Internal Revenue Service Code Section 148, rebate arbitrage are earnings on investments purchased from gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebate arbitrage must be paid to the federal government. The City of Moses Lake carefully monitors investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2016 the City has no arbitrage rebate liability.

Government Loans

Government loans have been received to provide for construction of proprietary fund capital.

Government loans outstanding at year-end are as follows:

| Loan | Interest Rate | Amount |
|------------------------|---------------|---------------------|
| PWTF WWTP-Design | 0.50% | \$ 161,402 |
| PWTF WWTP-Construction | 0.50% | 3,176,470 |
| Total | | <u>\$ 3,337,872</u> |

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

| Year | Principal | Interest | Total |
|-------|---------------------|------------------|---------------------|
| 2017 | \$ 561,692 | \$ 16,689 | \$ 578,381 |
| 2018 | 561,692 | 13,881 | 575,573 |
| 2019 | 561,692 | 11,072 | 572,764 |
| 2020 | 561,692 | 8,264 | 569,956 |
| 2021 | 561,692 | 5,456 | 567,148 |
| 2022 | 529,412 | 2,647 | 532,059 |
| Total | <u>\$ 3,337,872</u> | <u>\$ 58,009</u> | <u>\$ 3,395,881</u> |

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2016, the City has \$185,237 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,310,849 in sinking funds and reserves as required by bond indentures.

B. Conduit Debt

The City of Moses Lake entered into a SIP Loan from Grant County for the amount of \$60,000 starting December 3, 2013, payable over five years. The City borrowed this amount for the express purpose of providing capital financing to a private corporation for utility infrastructure additions and the City has no obligation for the debt besides collecting the money from the company and paying it back to the County.

NOTE 10 - LEASES

Capital Leases

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

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

The assets acquired through capital leases are as follows:

| | Governmental Activities | Business- Type Activities |
|-------------------------------|----------------------------|------------------------------|
| Net Capital Lease Asset | | |
| Machinery & Equipment | \$ 2,119,029 | \$ - |
| Less Accumulated Depreciation | 260,984 | - |
| Total | <u>\$ 2,380,013</u> | <u>\$ -</u> |

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2016 are as follows:

| Year | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| 2017 | \$ 530,116 | \$ - |
| 2018 | 416,043 | - |
| 2019 | 299,484 | - |
| 2020 | 217,234 | - |
| Total minimum lease payments | 1,462,877 | - |
| Less: Interest | 71,408 | - |
| Present value of minimum lease payments | <u>\$ 1,391,469</u> | <u>\$ -</u> |

NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

| | Beginning Balance 01/01/2016 | Additions | Reductions | Ending Balance 12/31/2016 | Due Within One Year | Internal Service Funds |
|------------------------------|------------------------------------|---------------------|---------------------|---------------------------------|------------------------|------------------------------|
| Governmental activities | | | | | | |
| Bonds payable: | | | | | | |
| General obligation bonds | \$ 7,677,490 | \$ - | \$ 991,657 | \$ 6,685,833 | \$ 920,000 | \$ 3,715,000 |
| Less deferred amount | | | | | | |
| Issuance premiums(discounts) | 351,582 | - | 42,518 | 309,064 | - | 98,768 |
| Total bonds | 8,029,072 | - | 1,034,175 | 6,994,897 | 920,000 | 3,813,768 |
| Capital leases | 985,524 | 1,075,407 | 669,462 | 1,391,468 | 498,046 | 1,391,468 |
| Claims and judgements | - | - | - | - | - | - |
| Compensated absences | 1,716,256 | 104,027 | 5,583 | 1,814,700 | 5,615 | 56,154 |
| Pension | 3,249,988 | 4,676,705 | 3,249,989 | 4,676,704 | - | 363,818 |
| OPEB | 918,312 | 68,930 | 84 | 987,158 | - | - |
| Governmental liabilities | <u>\$ 14,899,153</u> | <u>\$ 5,925,069</u> | <u>\$ 4,959,293</u> | <u>\$ 15,864,927</u> | <u>\$ 1,423,661</u> | <u>\$ 5,625,208</u> |
| Business-type activities | | | | | | |
| Bonds payable: | | | | | | |
| General obligation bonds | \$ 642,510 | \$ - | \$ 48,343 | \$ 594,167 | \$ 25,833 | |
| Revenue bonds | 8,590,000 | - | 875,000 | 7,715,000 | 875,000 | |
| Less deferred amounts | | | | | | |
| Issuance premiums(discounts) | 282,562 | - | 33,069 | 249,493 | - | |
| Total bonds | 9,515,072 | - | 956,412 | 8,558,660 | 900,833 | |
| Capital leases | - | - | - | - | - | |
| Government loans | 3,899,564 | - | 561,692 | 3,337,872 | 561,692 | |
| Compensated absences | 570,236 | 42,838 | 1,990 | 611,084 | 61,109 | |
| Pension | 2,418,182 | 2,326,614 | 2,604,910 | 2,139,886 | - | |
| Business-type liabilities | <u>\$ 16,403,054</u> | <u>\$ 2,369,452</u> | <u>\$ 4,125,004</u> | <u>\$ 14,647,502</u> | <u>\$ 1,523,634</u> | |

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year end \$5,625,208 of internal service funds debt and compensated absences are included in the above amounts. Also, for the governmental activities except internal service funds, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 12 - CONTINGENCIES AND LITIGATIONS

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

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

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

As of December 31, 2016, significant suits were:

Pending Litigation:

1. Trunkel-Smart v. City of Moses Lake: Suit for personal injury damages filed in Grant County Superior Court for injuries sustained at the City's aquatic center. This matter was referred to the city's insurance carrier for defense and the city's exposure is limited to its \$25,000 deductible. The case was dismissed on March 24, 2016 pursuant to a settlement wherein the City agreed to pay \$65,000.00.
2. Donna Anderson and A Stronger Moses Lake v. City of Moses Lake and WinCo Foods, LLC: This is an appeal of City staff's binding site plan approval and SEPA threshold determination for the WinCo Foods project. The administrative appeal to the Planning Commission was held on January 6-7, 2016, and plaintiff appealed to Grant County Superior Court. The Superior Court dismissed the case in the City's favor on April 13, 2016.
3. Daniel Trujillo v. City of Moses Lake: Suit for personal injury damages filed in Grant County Superior Court for injuries sustained on private property over which the City has a utility easement. This case was filed on May 3, 2016 and has been referred to the city's insurance carrier for defense and the city's exposure is limited to its \$25,000 deductible. The city intends to vigorously defend this case.

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

NOTE 13 - RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$1,062,017 of restricted for other purposes component of net position, of which \$541,893 is restricted by enabling legislation.

NOTE 14 - INTERFUND BALANCES AND TRANSFERSInterfund Balances

Loans between funds are classified as interfund loans receivable or payable on the statement of net position. The loans were for Operations Complex construction, Civic Center Construction, and operating expenses. Interfund balances at December 31, 2016 were as follows:

| DUE TO | DUE FROM | | | | TOTALS |
|-------------|--------------|----------------------|-----------------|----------------|--------------|
| | GENERAL FUND | BUILDING MAINTENANCE | SANITATION FUND | AMBULANCE FUND | |
| WATER/SEWER | 750,000 | 4,628,108 | 592,331 | 366,998 | 6,337,437 |
| TOTALS | \$ 750,000 | \$ 4,628,108 | \$ 592,331 | \$ 366,998 | \$ 6,337,437 |

Interfund Transfers

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

| TRANSFER TO | TRANSFER FROM | | | | | Totals |
|----------------------------|---------------|------------|------------|--------------|-------------|--------------|
| | GENERAL | STREETS | TOURISM | DEBT SERVICE | WATER SEWER | |
| GENERAL | \$ - | \$ - | \$ 34,700 | \$ 14,231 | \$ 500,000 | \$ 548,931 |
| STREET/STREET CONSTRUCTION | 1,398,200 | - | - | - | - | 1,398,200 |
| DEBT SERVICE | 52,400 | 148,400 | 175,500 | 159,798 | - | 536,098 |
| AMBULANCE | 74,340 | - | - | - | - | 74,340 |
| CENTRAL SERVICE | 15,800 | - | - | - | - | 15,800 |
| | | | | | | - |
| Totals | \$ 1,540,740 | \$ 148,400 | \$ 210,200 | \$ 174,029 | \$ 500,000 | \$ 2,573,369 |

NOTE 15 - SEGMENT INFORMATION

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

| | Water | Sewer | Total |
|--|-----------------------------|-----------------------------|-----------------------------|
| CONDENSED STATEMENT OF NET POSITION | | | |
| Assets: | | | |
| Current asset | \$ 15,119,282 | \$ 1,099,490 | \$ 16,218,772 |
| Restricted assets | 648,728 | 662,121 | 1,310,849 |
| Capital assets | <u>35,050,126</u> | <u>42,794,019</u> | <u>77,844,144</u> |
| TOTAL ASSETS | <u>50,818,135</u> | <u>44,555,630</u> | <u>95,373,765</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 232,383 | 90,274 | 322,658 |
| Liabilities: | | | |
| Current liabilities | 535,087 | 180,981 | 716,068 |
| Current liabilities payable from restricted assets | 643,295 | 1,021,676 | 1,664,971 |
| Noncurrent liabilities | <u>5,999,176</u> | <u>6,771,880</u> | <u>12,771,056</u> |
| TOTAL LIABILITIES | <u>7,177,558</u> | <u>7,974,538</u> | <u>15,152,095</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 27,499 | 9,300 | 36,799 |
| Net Position: | | | |
| Net investment in capital assets | 54,072,167 | 13,237,913 | 67,310,080 |
| Restricted | 663,580 | 663,580 | 1,327,160 |
| Unrestricted | <u>8,805,765</u> | <u>3,064,523</u> | <u>11,870,288</u> |
| TOTAL NET POSITION | <u>\$ 63,541,512</u> | <u>\$ 16,966,016</u> | <u>\$ 80,507,528</u> |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | | |
| Operating Revenues | | | |
| Total operating revenues | \$ 6,119,651 | \$ 4,630,661 | \$ 10,750,312 |
| Depreciation, amortization, depletion | (1,122,303) | (1,315,665) | (2,437,968) |
| Total operating expense | <u>(2,850,725)</u> | <u>(2,152,053)</u> | <u>(5,002,778)</u> |
| Operating income | 2,146,623 | 1,162,943 | 3,309,566 |
| Nonoperating revenue (expenses): | | | |
| Interest income | 146,687 | - | 146,687 |
| Miscellaneous revenues/expense | 323,504 | 37,873 | 361,377 |
| Intergovernmental payments | - | (61,961) | (61,961) |
| Interest expense | (174,228) | (186,713) | (360,941) |
| Disposal of assets | - | - | - |
| Total Non-Oper Rev.(Exp.) | <u>295,963</u> | <u>(210,802)</u> | <u>85,161</u> |
| Income Before Transfers & Contributions | 2,442,586 | 952,141 | 3,394,727 |
| Capital contributions | 766,194 | 593,642 | 1,359,836 |
| Transfers in (out) | <u>(500,000)</u> | <u>-</u> | <u>(500,000)</u> |
| Change in net position | 2,708,780 | 1,545,783 | 4,254,563 |
| Beginning net position | 42,036,723 | 34,216,242 | 76,252,965 |
| Prior period adjustments | - | - | - |
| Ending net position | <u>\$ 44,745,503</u> | <u>\$ 35,762,025</u> | <u>\$ 80,507,528</u> |
| CONDENSED STATEMENT OF CASH FLOWS | | | |
| Net cash provided (used) by: | | | |
| Operating activities | \$ 4,369,900 | \$ 1,413,374 | \$ 5,783,274 |
| Noncapital financing activities | 211,703 | 55,457 | 267,160 |
| Capital & related financing activities | <u>(1,947,998)</u> | <u>(1,677,601)</u> | <u>(3,625,599)</u> |
| Net increase (decrease) | 2,633,605 | (208,770) | 2,424,835 |
| Beginning cash & cash equivalents | 7,266,870 | (81,438) | 7,185,432 |
| Ending cash & cash equivalents | <u>\$ 9,900,475</u> | <u>\$ (290,208)</u> | <u>\$ 9,610,267</u> |

NOTE 16 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In addition to the pension benefits described in Note No. 7, the City provides post-retirement medical care benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977.

Membership

Currently the City has 16 individuals that meet the eligibility requirements. This is considered a closed group with no new eligible members.

Plan Description

The "plan" is required by State of Washington Revised Code (RCW) chapter 41.26. Employers, such as municipalities, counties, and fire districts, are required to pay the costs of necessary medical services for any active or retired members of the Law Enforcement Officers' and Firefighters' Retirement System Plan One (LEOFF I). Under subsection 4, the employer may provide for medical insurance through insurance carriers. The plan covers retirees who are retired on disability as well as those who are retired after reaching age requirements. To qualify for medical services, the employee need only be active or disability retired, or the employee's service retirement date is that day following separation from LEOFF employment with the City. To make this plainer, if the employee leaves the City and takes a job with another member of the Washington State Retirement System, regardless of the plan, then that member would then be liable for the employee's medical services. Employees may retire after 5 years of service after reaching age 50. Employees with 20 years of service who leave employment before retirement age are eligible for medical benefits upon reaching age 50. Insurance for retired individuals is provided through the employer's group plan, which covers both active and qualified retired members. The health insurance coverage and medical costs for retired firefighters are paid for out of the fire department budget and law enforcement officers are paid out of the police department budget. The medical services cover active and retired members only. Spouses are not eligible. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

Funding Status and Funding Policy

As of December 2016 there are no active members, and currently 16 retired members. Health insurance premiums are paid monthly. Other medical services are paid bi-monthly as billings are presented for reimbursement. The City reimburses 100 percent of the amount of validated claims for medical costs incurred by these individuals. The pension board performs an annual survey to determine the care to be covered. Employer contributions are financed on a pay-as-you-go basis. Fire fighter and police benefits are paid out of the general fund.

For 2016, the City paid medical insurance premiums of \$68,194 for pre-age 65, and \$81,543 for post-age 65. Other medical payments paid by the City are for all eligible medical services not paid for by the insurance.

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

| | Police | Fire | Total |
|--|-------------------|-------------------|-------------------|
| Annual required contribution | \$ 103,322 | \$ 161,254 | \$ 264,576 |
| Interest on net OPEB obligation | 6,038 | 6,905 | 12,943 |
| Adjustment to annual required contribution | -24,384 | -27,887 | -52,271 |
| Annual OPEB cost (expense) | 84,976 | 140,273 | 225,249 |
| Contributions made | 59,080 | 97,238 | 156,318 |
| Change in net OPEB obligation | 25,895 | 43,035 | 68,931 |
| Net OPEB obligation-Beginning of year | 428,350 | 489,878 | 918,227 |
| Net OPEB obligation-End of year | <u>\$ 454,245</u> | <u>\$ 532,913</u> | <u>\$ 987,158</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the two preceding fiscal years were as follows:

| Police | | | | |
|-------------------|------------------------------|-------------------------------|--|---------------------|
| Fiscal Year Ended | Annual Required Contribution | Annual OPEB Costs Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 12/31/2014 | \$36,021 | \$62,548 | 174% | \$412,770 |
| 12/31/2015 | \$86,149 | \$70,569 | 82% | \$428,350 |
| 12/31/2016 | \$84,976 | \$59,080 | 70% | \$454,245 |

| Fire | | | | |
|-------------------|------------------------------|-------------------------------|--|---------------------|
| Fiscal Year Ended | Annual Required Contribution | Annual OPEB Costs Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 12/31/2014 | \$29,399 | \$113,737 | 387% | \$465,378 |
| 12/31/2015 | \$139,013 | \$114,513 | 82% | \$489,878 |
| 12/31/2016 | \$140,273 | \$97,238 | 69% | \$532,913 |

Funding Status and Funding Progress

As of December 2016, the actuarial accrued liability for benefits was \$4,583,151 total of both departments.

Schedule of Funding Progress for the Leoff 1 Retiree Healthplan

| Police | | | | | | |
|--------------------------|-----------------|---|---------------------|--------------|-----------------|---|
| Actuarial Valuation Date | Value of Assets | Actuarial Accrued Liability (AAL)- Unit Credit Cost | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| 12/31/2014 | - | \$901,415 | 901,415 | 0% | - | - |
| 12/31/2015 | - | \$1,726,773 | 1,726,773 | 0% | - | - |
| 12/31/2016 | - | \$1,789,802 | 1,789,802 | 0% | - | - |
| Fire | | | | | | |
| Actuarial Valuation Date | Value of Assets | Actuarial Accrued Liability (AAL)- Unit Credit Cost | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| 12/31/2014 | \$303,658 | \$1,157,068 | \$853,410 | 26% | - | 0% |
| 12/31/2015 | - | \$2,658,332 | \$2,658,332 | 0% | - | 0% |
| 12/31/2016 | - | \$2,793,349 | \$2,793,349 | 0% | - | 0% |

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

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

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

The expected rate of increase in health care insurance premiums is based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services, as published in National Health Care Expenditures Projections 2014-2024 Tables, Table 16: National Health Expenditure Amounts, and Annual Percent Change by Type of Sponsor: Calendar Years 2009-2025 published by the Health Care Financing Administration (www.cms.hhs.gov).

The assumed long term earnings rate on current and expected investments that are expected to be used in financing the payment of benefits is 1.41%. The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 2.01 percent was used. In addition, the actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The funded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2016 is nineteen years.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

An error was made in 2015 recording of Street fund fuel tax revenues that resulted in an understatement of revenues by \$171,441.

NOTE 18 – HEALTH & WELFARE

The City of Moses Lake is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees

must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 19 – JOINT VENTURES

In 1995, the City of Moses Lake entered an Interlocal Cooperative Agreement under the authority of RCW Chapter 39.34 in order to provide for the joint exercise of powers, privileges and authorities to operate a consolidated 911 emergency dispatch facility named Multi Agency Communications Center (MACC). MACC serves as the Public Safety Answering Point for all of the law enforcement agencies in Grant County. The City paid a rate of \$50,825.68 per month in 2016. Other participants of the 1995 Agreement include: the City of Electric City, the City of Ephrata, the City of Grand Coulee, the City of Quincy, the City of Royal City, the City of Soap Lake, the City of Warden, Emergency Telephone Tax District, Ephrata Telephone Tax District, Grant County, Grant County Emergency Services, Grant County Coroner, Grant County Fire District #3, Grant County Fire District #4, Grant County Fire District #5/15, Grant County Fire District #6, Grant County Fire District #7, Grant County Fire District #8, Grant County Fire District #10, Grant County Fire District #11, Grant County Fire District #12, Grant County Fire District #13, Grant County Fire District #14, Grant County Mental Health, Grant County Public Hospital District #2 dba Quincy Valley Hospital, Grant County Sherriff Office, Port of Moses Lake, the Town of Coulee City, and the Town of Mattawa. Grant County will account for MACC as an Agency fund and financial reports can be obtained for MACC at the Grant County Auditor's Office, 37 C ST NW Ephrata, Washington, 98823.

CITY OF MOSES LAKE
Required Supplementary Information

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Streets

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

| Condition rating | 2016 | | 2015 - 2013 | | 2012 - 2010 | |
|------------------|---------|---------|-------------|--------|-------------|---------|
| | Feet | % | Feet | % | Feet | % |
| VERY POOR | 19,892 | 2.65% | 14,989 | 2.02% | 16,247 | 2.31% |
| POOR | 8,312 | 1.11% | 8,818 | 1.19% | 3,980 | 0.57% |
| FAIR | 29,231 | 3.90% | 18,746 | 2.53% | 31,465 | 4.48% |
| GOOD | 181,759 | 24.23% | 153,206 | 20.69% | 109,243 | 15.54% |
| VERY GOOD | 510,792 | 68.12% | 544,763 | 73.55% | 542,054 | 77.11% |
| TOTAL | 749,986 | 100.01% | 740,522 | 99.98% | 702,989 | 100.01% |

It is the Policy of the City Engineering Department to maintain 70 percent of the streets at a PCR of 40 or higher. The table below shows the length and percentage of feet of streets that meet the 40 target level

| PCR score | 2016 | | 2015 - 2013 | | 2012 - 2010 | |
|---------------|---------|---------|-------------|---------|-------------|---------|
| | Feet | % | Feet | % | Feet | % |
| PCR 0 to 39 | 28,204 | 3.76% | 23,807 | 3.21% | 20,227 | 2.88% |
| PCR 40 to 100 | 721,782 | 96.24% | 716,715 | 96.79% | 682,762 | 97.12% |
| Total | 749,986 | 100.00% | 740,522 | 100.00% | 702,989 | 100.00% |

The four classifications of streets that the City has are primary, secondary, tertiary collectors and residential. There is a state highway which is considered a primary street that bisects the City which is maintained and evaluated by the State of Washington, Department of Transportation. The majority of streets that fall below the PCR to 40 are residential streets. The majority of the remaining streets under the PCR of 40 is a section of the City that has no sewer services at this time. Once funding is available to extend utilities to the particular area it is the City's plan to construct paved streets and maintained them at a level consistent with the remainder of the City.

Below is information on budgeted and actual expenditures incurred to maintain and preserve the street system at or above the minimum acceptable condition level from 2008 to 2016

| | Amounts in Thousands | | | | | | | | |
|----------|----------------------|------|------|------|------|-------|------|------|-------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Budgeted | 1,008 | 210 | 160 | 700 | 158 | 1,210 | 550 | 700 | 1,400 |
| Expended | 894 | 183 | 186 | 700 | 265 | 775 | 859 | 778 | 836 |

The budgeted amount is equivalent to the anticipated amount needed to maintain streets up to the recommended condition level. Under spending of budgeted amounts occurs when street projects are removed from the work schedule due to conflicts with other major construction work; lowering of priority due to cost considerations brought on by excessive bids over estimates or shortages of sufficient contractor bids; and through direction from Council.

Bridge

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

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

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

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

| | <u>Sufficiency Rating</u> |
|------|---------------------------|
| 2015 | 73% |
| 2011 | 70% |
| 2006 | 69% |

It is the policy of the City to maintain its bridge in such a manner that the sufficiency rating is 20 or higher. A rating of 20 or less is usually indicative of a bridge with structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge. As of September 30, 2015 the City's lone bridge was given a 'good' evaluation. With annual surface inspections and maintenance, as well as minimal water flow under the bridge it is anticipated that the bridge will continue to have favorable evaluation well into the future. With little change in the last two ratings the results of the City's efforts to maintain the bridge in

above standard condition are evident.

Because the City's bridge is relatively small (149 feet long) the budget and actual expended amounts to maintain and preserve the bridge are included in the budget and expended amounts for streets. Historically there has been no identifiable budget or expenditure for the maintenance of the lone bridge.

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

Storm Water

The City established a storm water fund in 2010, and in 2011 the City transferred assets worth \$4,197,819 previously held by the Street Department to the fund. The storm water system includes manholes, catch basins, underground injection control structures (i.e. drywells), infiltration basins, outfall structures and pipe. The City finished locating and documenting all storm water infrastructure in 2016, allowing all inspections to be entered into a comprehensive reporting system. The documentation was completed with the addition of the 29 miles of storm pipe. Condition assessments will be completed every three years with one-third of the system structures inspected annually. The City's storm pipe will be inspected over 8-10 years with those sections that are found to collect more sediment to be inspected on a more regular basis.

The rating system is a numerical index from zero to 100 (0-100) that represents the storm water's functional condition based on the quality, severity, and type of problem, such as sedimentation, structure cracks, etc. At this time there is no rating system for manholes. The City is developing a system that would closely mimic the existing rating system but currently manholes being inspected are given either a pass or fail grade. The measurement scale and basis for condition measurement is as follows:

Rating

| | |
|--------|--|
| 70-100 | Good Condition-serves the intended function and scores well in all areas |
| 41-69 | Fair condition-serves the intended function, but scores less well and has other issues. |
| 0-40 | Poor condition- may or may not fulfill its design function, has other serious issues, and requires maintenance or rebuild. |

It is the policy of the City Engineering Department to maintain 70% of the storm water structures and pipe at a condition of 41 or higher. All manholes and 2 miles (8%) of pipe were inspected in 2016. All pipe inspected was found to be in fair to good condition. All catch basins have been inspected in the last three years as has 95% of the approximately 3,350 total structures. Of the inspected structures, excluding pipe, eight percent were in poor to fair condition with the remaining 92% in fair to good condition.

Budget amounts are the anticipated amount needed to maintain and preserve the storm water system up to the required condition level. The last four years are as follows.

| | Amounts in Thousands | | | | |
|----------|----------------------|--------|--------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Budgeted | \$ 673 | \$ 516 | \$ 546 | \$ 507 | \$ 543 |
| Expended | \$ 590 | \$ 475 | \$ 523 | \$ 466 | \$ 462 |

City of Moses Lake
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2016
Last 10 Fiscal Years*

| | | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---|----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability (asset) | % | 0.058920% | 0.059183% | | | | | | | |
| Employer's proportionate share of the net pension liability | \$ | 3,082,064 | 3,178,406 | | | | | | | |
| State's proportionate share of the net pension liability (asset) associated with the employer | \$ | 0 | 0 | | | | | | | |
| TOTAL | \$ | 3,082,064 | 3,178,406 | | | | | | | |
| Employer's covered employee payroll | \$ | 6,781,379 | 6,806,380 | | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | % | 45.4% | 46.7% | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 59.10% | 57.03% | | | | | | | |

City of Moses Lake
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30, 2016
Last 10 Fiscal Years*

| | | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---|----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability (asset) | % | 0.072378% | 0.072259% | | | | | | | |
| Employer's proportionate share of the net pension liability | \$ | 2,586,107 | 3,638,184 | | | | | | | |
| State's proportionate share of the net pension liability (asset) associated with the employer | \$ | 0 | 0 | | | | | | | |
| TOTAL | \$ | 2,586,107 | 3,638,184 | | | | | | | |
| Employer's covered employee payroll | \$ | 6,633,123 | 5,806,141 | | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | % | 39.0% | 62.7% | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 89.20% | 85.82% | | | | | | | |

City of Moses Lake
Schedule of Proportionate Share of the Net Pension Liability
LEOFF Plan 1
As of June 30, 2016
Last 10 Fiscal Years*

| | | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---|----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability asset | % | 0.031497% | 0.030556% | | | | | | | |
| Employer's proportionate share of the net pension asset | \$ | 379,608 | 314,814 | | | | | | | |
| State's proportionate share of the net pension asset associated with the employer | \$ | 2,567,659 | 2,129,395 | | | | | | | |
| TOTAL | \$ | 2,947,267 | 2,444,209 | | | | | | | |
| Employer's covered employee payroll | \$ | 0 | 0 | | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | % | 0.0% | 0.0% | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 127.36% | 123.74% | | | | | | | |

City of Moses Lake
Schedule of Proportionate Share of the Net Pension Liability
LEOFF Plan 2
As of June 30, 2016
Last 10 Fiscal Years*

| | | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---|----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension asset | % | 0.175245% | 0.168008% | | | | | | | |
| Employer's proportionate share of the net pension asset | \$ | 1,801,168 | 977,185 | | | | | | | |
| State's proportionate share of the net pension asset associated with the employer | \$ | 1,190,934 | 637,053 | | | | | | | |
| TOTAL | \$ | 2,992,102 | 1,614,238 | | | | | | | |
| Employer's covered employee payroll | \$ | 5,195,821 | 5089726.53 | | | | | | | |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | % | 34.7% | 19.2% | | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 111.67% | 106.04% | | | | | | | |

City of Moses Lake
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|-------------|-----------|------|------|------|------|------|------|------|
| Statutorily or contractually required contributions | \$ 15,102 | 332,976 | | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ (15,102) | (332,976) | | | | | | | |
| Contribution deficiency (excess) | \$ 0 | 0 | | | | | | | |
| Covered employer payroll | \$ 148,256 | 6,862,609 | | | | | | | |
| Contributions as a percentage of covered employee payroll | % 10.19% | 4.85% | | | | | | | |

City of Moses Lake
Schedule of Employer Contributions
PERS Plan 2/3
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|--------------|-----------|------|------|------|------|------|------|------|
| Statutorily or contractually required contributions | \$ 671,782 | 421,911 | | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ (671,782) | (421,911) | | | | | | | |
| Contribution deficiency (excess) | \$ 0 | 0 | | | | | | | |
| Covered employer payroll | \$ 6,633,123 | 6,772,246 | | | | | | | |
| Contributions as a percentage of covered employee payroll | % 10.13% | 6.23% | | | | | | | |

City of Moses Lake
Schedule of Employer Contributions
LEOFF Plan 1
As of December 31, 2016
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|---------|-------|------|------|------|------|------|------|------|
| Statutorily or contractually required contributions | \$ 0 | 0 | | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ 0 | 0 | | | | | | | |
| Contribution deficiency (excess) | \$ 0 | 0 | | | | | | | |
| Covered employer payroll | \$ 0 | 0 | | | | | | | |
| Contributions as a percentage of covered employee payroll | % 0.00% | 0.00% | | | | | | | |

City of Moses Lake
Schedule of Employer Contributions
LEOFF Plan 2
As of December 31, 2016
Last 10 Fiscal Years*

| | | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|--|----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Statutorily or contractually required contributions | \$ | 272,168 | 258,688 | | | | | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ | (272,168) | (258,688) | | | | | | | |
| Contribution deficiency (excess) | \$ | <u>0</u> | <u>0</u> | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> |
| Covered employer payroll | \$ | 5,195,821 | 5,122,544 | | | | | | | |
| Contributions as a percentage of covered employee payroll | % | 5.24% | 5.05% | | | | | | | |

Required Supplementary Information

Schedule of Funding Progress LEOFF 1 Retiree Plan

Police Fund

| Actuarial Valuation Date | Value of Assets (a) | Accrued Liability (AAL) Unit Credit Cost (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---------------------------|--|---------------------------------|--------------------------|---------------------------|---|
| 12/31/2011 | | \$ 3,049,063 | \$ 3,049,063 | - % | 0 | 0% |
| 12/31/2012 | | \$ 2,913,881 | \$ 2,913,881 | - % | 0 | 0% |
| 12/31/2013 | | \$ 1,841,164 | \$ 1,841,164 | - % | 0 | 0% |
| 12/31/2014 | | \$ 901,415 | \$ 901,415 | - % | 0 | 0% |
| 12/31/2015 | - | \$ 1,726,773 | \$ 1,726,773 | - % | 0 | 0% |
| 12/31/2016 | - | \$ 1,789,802 | \$ 1,789,802 | - % | 0 | 0% |

Fireman Fund

| Actuarial Valuation Date | Value of Assets (a) | Accrued Liability (AAL) Unit Credit Cost (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---------------------------|--|---------------------------------|--------------------------|---------------------------|---|
| 12/31/2011 | \$ 471,756 | \$ 4,527,547 | \$ 4,055,791 | 10% | 0 | - % |
| 12/31/2012 | \$ 383,571 | \$ 4,214,304 | \$ 3,830,733 | 9% | 0 | - % |
| 12/31/2013 | \$ 331,003 | \$ 2,762,954 | \$ 2,431,951 | 12% | 0 | - % |
| 12/31/2014 | \$ 303,658 | \$ 1,157,068 | \$ 853,410 | 26% | 0 | - % |
| 12/31/2015 | \$ - | \$ 2,658,332 | \$ 2,658,332 | - % | 0 | - % |
| 12/31/2016 | \$ - | \$ 2,793,349 | \$ 2,793,349 | - % | 0 | - % |

Firemans' Pension Plan

Net Pension Obligation Trend Information

| Fiscal Year Ended | Annual Pension Cost (APC) | Annual Pension Costs Contributed | Contribution as a Percent of APC | Net Pension Obligation (NPO) |
|-------------------|---------------------------|----------------------------------|----------------------------------|------------------------------|
| 12/31/2014 | N/A | \$28,955 | N/A | N/A |
| 12/31/2015 | (\$10,105) | \$29,272 | 290% | (\$39,377) |
| 12/31/2016 | (\$8,534) | \$28,586 | 335% | (\$76,497) |

2015 first year of actuarial valuation of pension plan without OPEB.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

| Contact information for the State Auditor's Office | |
|--|--|
| Public Records requests | PublicRecords@sao.wa.gov |
| Main telephone | (360) 902-0370 |
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| Website | www.sao.wa.gov |