

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

City of Pullman
Whitman County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004721

Issue Date
December 20, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 20, 2010

Mayor and City Council
City of Pullman
Pullman, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Whitman County
January 1, 2009 through December 31, 2009**

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Federal Summary

City of Pullman
Whitman County
January 1, 2009 through December 31, 2009

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	ARRA – Highway Planning and Construction (Recovery Act)
20.509	Formula Grants for Other Than Urban Areas
20.509	ARRA – Formula Grants for Other Than Urban Areas (Recovery Act)

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

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

Schedule of Audit Findings and Responses

**City of Pullman
Whitman County
January 1, 2009 through December 31, 2009**

1. The City controls are inadequate to ensure accurate accounting and financial reporting.

Background

City management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in controls that adversely affect the City's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

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

- City employees responsible for financial statement preparation do not have adequate knowledge of or experience with the Governmental Accounting Standards Board Statement No. 34 reporting format. This reporting format is complex and requires users to have a high level of understanding of the related accounting principles and the relationship the statements have to one another.
- The City does not have a process to reconcile the financial statements to the underlying accounting records or review them for accuracy.

Cause of Condition

The City's Finance Department experienced turnover in key positions during the audit period. The City did not provide adequate training to staff responsible for preparing the financial statements. In addition, the City did not have an effective review process to ensure accurate financial reporting.

Effect of Condition

City staff did not detect errors in the financial statements. During our review, we found the following significant errors in the original financial statements we received for audit.

- The 2009 statements included 2008 balances when City employees could not determine where the amounts should be obtained from the 2009 accounting records.
- Proprietary debt of \$2.7 million was improperly classified as a governmental activity.
- Total Net Assets reported in the Statement of Activities did not reconcile to the Statement of Net Assets by \$2.7 million.
- Management's Discussion and Analysis did not reconcile to the financial statements.
- The Street Fund budget was under reported by \$1.6 million when compared to the Council-adopted budget.
- Notes to the financial statements did not reconcile to the financial statements.
- Totals of some columns and tables were not mathematically accurate.

Management subsequently corrected these errors. We also noted numerous less significant errors, some of which the City did not correct.

These deficiencies in internal controls make it reasonably possible that serious misstatements could continue to occur and not be prevented or detected by the City.

Recommendation

We recommend City personnel:

- Establish and follow internal controls to ensure adequate oversight of financial reporting, including a detailed review of the financial statements.
- Receive training over reporting requirements and ensure financial statements are properly prepared and presented.

City's Response

The City encountered turnover in staffing in key positions. The Finance Director left in June 2009, and the Accounting Manager left the City the beginning of January, 2010 during the start of preparation of the 2009 audit. The new Finance Director completed the 2009 financial report as well as reviewed the report himself. Going forward, highly skilled personnel have taken over the positions of Accounting Manager and Accountant. They have received training in report preparation, and will prepare the 2010 report. This will allow the Finance Director to review the financial reports in sufficient detail to ensure completeness and accuracy in accordance with reporting requirements.

We agree the city did not have adequate controls in place to assure accurate reporting of project revenues and expenditures by funding source for the period under audit, due to the turnover of personnel and lack of an independent review of the reports. We are

committed to correcting the problems, making sure the proper controls are in place to prevent these problems in the future. We appreciate all the assistance the State Auditor's Office provided during the audit.

The City acknowledges the conditions described in the Schedule of Audit Findings and Responses. In response to the recommendations of the State Auditor's Office, the City has instituted a corrective action plan for training as well as to ensure that adequate internal controls for financial reporting oversight is established .

Auditor's Remarks

We appreciate the steps the City is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

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.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management.

Government Auditing Standards, July 2007 Revision – Section 5.11, provides that auditors should report significant deficiencies and material weaknesses in internal control.

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

- a. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, 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.
- b. Significant deficiency: 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.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

City of Pullman
Whitman County
January 1, 2009 through December 31, 2009

Mayor and City Council
City of Pullman
Pullman, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2010.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Pullman
Whitman County
January 1, 2009 through December 31, 2009**

Mayor and City Council
City of Pullman
Pullman, Washington

COMPLIANCE

We have audited the compliance of the City of Pullman, Whitman County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2010

Independent Auditor's Report on Financial Statements

City of Pullman Whitman County January 1, 2009 through December 31, 2009

Mayor and City Council
City of Pullman
Pullman, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed on page 13. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 14 through 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2010

Financial Section

**City of Pullman
Whitman County
January 1, 2009 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009
Statement of Activities – 2009
Balance Sheet – Governmental Funds – 2009
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds – 2009
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Street Fund – 2009
Statement of Net Assets – Proprietary Fund – 2009
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2009
Statement of Cash Flows - Proprietary Funds – 2009
Statement of Net Assets – Fiduciary Funds – 2009
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2009
Notes to the Financial Statements – 2009

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2009
Notes to the Schedule of Expenditures of Federal Awards – 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Pullman, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2009. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by \$86,075,000 (net assets) for the fiscal year reported.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$67,988,263 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$2,327,384 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$15,759,353 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$8,224,463 this year. This compares to the prior year ending fund balance of \$9,063,250, showing a decrease of \$838,787 during the current year. Unreserved fund balance of \$7,610,740 for fiscal year 2009 shows a \$898,678 decrease from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,967,436, or 19.7 percent of total General Fund expenditures including transfers and 20.4 percent of total General Fund revenues including transfers.
- Overall, the City continues to maintain a stable financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The first of these government-wide statements is the *Statement of Net Assets*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as changes to the City's property tax base, changes to the sales tax base, and the condition of the City's infrastructure.

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

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

Budgetary comparison statements are included as “basic financial statements” for the major, general and street funds. Budgetary comparison schedules for all other governmental funds can be found later in this report. These statements demonstrate compliance with the City’s adopted and final revised budget.

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

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

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

Notes To The Basic Financial Statements

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

Financial Analysis of the City as a Whole

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

The City's net assets at fiscal year-end are \$86,075,000. The following table provides a summary of the City's net assets as of December 31, 2009 and December 31, 2008:

	Summary of Net Assets							
	Governmental Activities		Business-Type Activities		Total		Percentage of Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Assets								
Current assets	10,536,057	11,311,703	8,680,685	7,883,491	19,216,742	19,195,194	20%	21%
Restricted assets	1,194,732	1,122,982	530,434	20,660	1,725,166	1,143,642	2%	1%
Capital assets	31,256,341	30,774,232	45,553,647	42,314,960	76,809,988	73,089,192	79%	78%
Total assets	42,987,130	43,208,917	54,764,766	50,219,111	97,751,896	93,428,028	100%	100%
Liabilities								
Current liabilities	1,925,929	2,490,665	652,731	550,930	2,578,660	3,041,595	22%	30%
Long-term liabilities	2,713,969	2,907,883	6,384,267	4,340,542	9,098,236	7,248,425	78%	70%
Total liabilities	4,639,898	5,398,548	7,036,998	4,891,472	11,676,896	10,290,020	100%	100%
Net Assets								
Investment in capital assets, net of debt	28,818,883	28,150,396	39,169,380	37,974,418	65,303,263	66,124,814	76%	80%
Restricted	2,327,384	2,208,865	-	-	2,327,384	2,208,865	3%	3%
Unrestricted	7,200,965	7,451,108	8,558,388	7,353,221	18,444,353	14,804,329	21%	18%
Total net assets	\$38,347,232	\$37,810,369	\$47,727,768	\$45,327,639	\$86,075,000	\$83,138,008	100%	100%

The City continues to maintain an acceptable current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 4.7 to 1 and 6.5 to 1 for business-type activities. For the City overall, the current ratio is 7.7 to 1. We consider these ratios within an acceptable range.

The City reported positive balances in net assets for both governmental and business-type activities. Net assets increased \$536,863 for governmental activities and increased by \$2,400,129 for business-type activities. The City's overall financial position improved during fiscal year 2009.

Note that approximately 80.0 percent of the governmental activities' net assets are tied up in capital. Also, note that the City began capitalizing their total infrastructure December 31, 2007. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent approximately 82.1 percent of its net assets on capital. Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 84.3 percent of the City's total net assets.

The following table provides a summary of the City's changes in net assets as of December 31, 2009 and December 31, 2008:

	Summary of Changes in Net Assets						Percentage	
	Governmental		Business-Type		Total		Of Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues:								
Programs:								
Charges for services	2,970,555	2,792,164	8,568,216	7,451,951	11,538,771	10,244,115	38%	34%
Fines & forfeits	-	-	-	-	-	-	0%	0%
Miscellaneous	-	-	-	-	-	-	0%	0%
Operating grants	2,530,215	2,185,724	2,156,898	2,170,479	4,687,113	4,356,203	16%	14%
Capital grants	-	-	1,106,080	2,129,720	1,106,080	2,129,720	4%	7%
General:	-	-	-	-	-	-	0%	0%
Taxes	12,456,794	12,871,996	-	-	12,456,794	12,871,996	41%	43%
Interest	222,857	516,374	20,224	104,452	243,081	620,826	1%	2%
Disposition of capital assets	-	-	-	-	-	-	0%	0%
Total revenues	18,180,421	18,366,258	11,851,418	11,856,602	30,031,839	30,222,860	100%	100%
Program expenses:								
Gen. gov't services	1,371,845	2,188,444	-	-	1,371,845	2,188,444	5%	8%
Public safety	9,543,194	9,462,715	-	-	9,543,194	9,462,715	37%	34%
Highway & streets	2,201,586	2,977,497	-	-	2,201,586	2,977,497	8%	11%
Economic development	-	-	-	-	-	-	0%	0%
Culture & recreation	4,849,270	4,751,704	-	-	4,849,270	4,751,704	19%	17%
Int. & other debt service costs	(431,152)	(10,830)	-	-	(431,152)	(10,830)	-2%	0%
Utilities	-	-	6,022,084	6,446,603	6,022,084	6,446,603	23%	23%
Other business types	-	-	2,513,542	2,257,413	2,513,542	2,257,413	10%	8%
Total expenses	17,534,743	19,369,530	8,535,626	8,704,016	26,070,369	28,073,546	100%	100%
Excess revenues	645,678	(1,003,272)	3,315,792	3,152,586	3,961,470	2,149,314		
Transfers	(108,815)	126,683		(100,000)	(108,815)	26,683		
Prior period adjustments	-	309	(915,663)	(808,911)	(915,663)	(808,602)		
Change in net assets	536,863	(876,280)	2,400,129	2,243,675	2,936,992	1,367,395		
Beginning net assets	37,810,369	38,686,649	45,327,639	43,083,964	83,138,008	81,770,613		
Ending net assets	<u>\$38,347,232</u>	<u>\$37,810,369</u>	<u>\$47,727,768</u>	<u>\$45,327,639</u>	<u>\$86,075,000</u>	<u>\$83,138,008</u>		

GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations. Property taxes provided 27.8 percent of the revenues for governmental activities. Sales taxes provided 15.9 percent of these revenues, and utility taxes total 19.4 percent. Charges for services totaled 16.3 percent of these revenues. Note that program revenues cover approximately 31.4 percent of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 68.6 percent of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety costs comprise 54.1 percent of the City's total governmental expenses. Highways and Streets costs make up 12.5 percent of the total governmental expenses. The general government services expenses are 7.8 percent of governmental expenses.

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

Governmental Activities

	<u>Total Cost Of Services</u>		<u>Net Cost Of Services</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Gen Gov't Services	\$ 1,371,845	\$ 2,188,444	\$ (352,094)	\$ (1,096,772)
Public Safety	9,543,194	9,462,715	(7,817,384)	(7,909,594)
Highways and Streets	2,201,586	2,977,497	(812,436)	(1,908,424)
Culture & Recreation	4,849,270	4,751,704	(3,483,211)	(3,487,682)
Int & Other Debt Service Costs	<u>(431,152)</u>	<u>(10,830)</u>	<u>431,152</u>	<u>10,830</u>
	<u>\$ 17,534,743</u>	<u>\$ 19,369,530</u>	<u>\$ (12,033,973)</u>	<u>\$ (14,391,642)</u>

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

BUSINESS-TYPE ACTIVITIES Revenues vs. Costs

For all enterprise funds, the City reports a current ratio of 6.4 to 1, which is a healthy ratio. The business-type activities report capitalized assets of over \$45.5 million, which provide a variety of services to the citizens of Pullman.

The business-type activities report \$7.4 million in unrestricted net assets, which provides these funds with adequate resources to maintain service levels without substantial increases in their revenue streams.

The operating revenues for both of the City's enterprise funds were up \$1,048,922 or 14.3 percent more than 2008, with operating expenses 9.6 percent more than 2008. Within the total business-type activities of the City, these enterprise funds reported \$(1,315,349) operating income compared to operating income of \$(2,309,699) for the prior year. A detailed discussion of the major enterprise funds is presented in a separate section below.

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately \$8.2 million. Of this year-end total, \$7.6 million is unreserved indicating availability for continuing City service requirements. Legally restricted fund balances (i.e., the reserved fund balances) include \$613,723 committed to the Lawson Expendable Trust, Firemen Pension Fund, and the Cemetery Perpetual Care Fund.

The total ending fund balances of governmental funds show a decrease of \$838,787 or 9 percent below the prior year. This increase is primarily the result of the events and programs described within the analysis of the City's governmental activities.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$464,344. In the prior year, the fund balance decreased by \$83,345. Unreserved fund balance as a percentage of expenditures was 19.9 percent of operations or slightly less than three months of operations. This is an adequate amount to protect the fund against unforeseen emergencies or downturns in the economy.

Taxes totaling \$10.04 million made up 69.2 percent of total general fund revenue in 2009 as compared to 70.9 percent in 2008. Sales Taxes decreased approximately 15.6 percent as the City experienced more of a downturn in the economy than in 2008

General fund expenditures increased \$247,448 or approximately 1.7 percent. This is a smaller increase than budgeted and is related to staff efforts to curtail expenditures. Public safety made up 62.9 percent of total expenditures. Since the general fund supports a number of programs in other funds, \$137,892 was transferred to these funds including \$18,509 to the government buildings fund, \$82,572 to the equipment rental fund, \$32,012 to the Airport and \$4,799 to the information systems fund.

The streets fund ended the year with a decrease in fund balance of \$208,915. After the above-mentioned transfers, the net assets balance in the government buildings and the information systems funds were \$364, 035 and \$291,612 respectively.

The Proprietary Funds

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

The Water and Sewer Systems - The water and sewer systems report net assets of \$41.7 million, with 84.9 percent invested in capital assets. The current ratio for this fund is 5.7 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water and sewer systems reported operating income of \$494,783 with a total increase in net assets of approximately \$2,067,247 million after capital contributions and transfers in from other funds. The operating income amount is more favorable than the operating loss of \$697,779 in 2008. The total increase in net assets is less favorable than the amount of \$2.11 million in 2008

The Transit System - The transit system reports net assets of close to \$4.7 million, with 77.1 percent invested in capital assets. The current ratio for this fund is 6.2 to 1 which provides this fund with adequate resources to cover cash flow issues.

The transit system reported operating loss of \$1,810,132 with a total increase in net assets of approximately \$64,125 after capital contributions and transfers in from other funds. The operating income amount is less favorable than the loss of \$1,611,920 in 2008. The total increase in net assets is more favorable than the amount of \$25,222 in 2008.

Budgetary Highlights

The General Fund – The General Fund's original revenue budget was less than the 2008 actual results and expenditure budget was more than the 2008 actual results. The City Council amended both the revenue and expenditure budgets during 2009, which resulted in a 1.5 net percent change between the original and final budgets. In total, actual revenues were less than the final budget by \$283,086 or about a 1.91 percent difference. The primary changes to the expenditure budgets salary and benefit costs relating to a labor contract settlement in the police department, overtime expenditures in the fire department, and one-time transfers to other funds for capital improvement program projects. The primary changes in the revenue budgets are related to taxes. The total actual expenditures were approximately \$920,425 less than budgeted or 5.83 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to sales taxes, other taxes, licenses and permits, and investment earnings. The difference in sales taxes relates to low levels of construction within the city limits. The differences in other taxes relate to a decrease to admission taxes from concerts, licensing and permits revenues were lower than expected due to a significant decline in building permit activity. Decreases to investment earnings are a combination of lower rates.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts occurred total general government, in the public safety and culture and recreation functions. The actual amounts expended by general government was less than budget by \$177,898 or a 11.6 percent decrease. The public safety function were less than the final budget by \$409,096 or a 4.2 percent difference. The actual amounts expended by the culture and recreation function were less than the final budget by \$278,652 or a 6.6 percent difference.

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

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2008, was \$30.8 million and \$42.3 million respectively. The total increase in this net investment was 3.2 percent for governmental and a 17.5 percent increase for business-type activities. The overall increase was 11.0 percent for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year. The following table provides a summary of capital asset activity.

	Capital Assets						Percentage	
	(Amounts Presented in \$1,000s)						Of Total	
	Governmental		Business-Type		Total			
	Activities	Activities	Activities	Activities	2009	2008	2009	2008
Non-depreciable assets:								
Land	1,301	1,301	959	828	2,260	2,129	2%	2%
Construction in progress	2,691	2,622	15,200	11,580	17,891	14,202	16%	14%
Total non-depreciable	3,992	3,923	16,159	12,408	20,151	16,331	18%	16%
Depreciable assets:								
Plant in service	-	-	49,382	48,650	49,382	48,650	44%	46%
Buildings	5,348	5,348	-	-	5,348	5,348	5%	5%
Other improvements	3,852	3,259	-	-	3,852	3,259	3%	3%
Machinery & equipment	7,140	6,968	-	-	7,140	6,968	6%	7%
Infrastructure	25,167	24,420	-	-	25,167	24,420	23%	23%
Total depreciable assets	41,507	39,995	49,382	48,650	90,889	88,645	82%	84%
Total cost of capital assets	45,499	43,918	65,541	61,058	111,040	104,976	100%	100%
Accumulated depreciation	14,243	13,144	19,987	18,743	34,230	31,887		
Book value-capital assets	<u>\$31,256</u>	<u>\$30,774</u>	<u>\$45,554</u>	<u>\$42,315</u>	<u>\$76,810</u>	<u>\$73,089</u>		
Percentage depreciated	<u>31%</u>	<u>30%</u>	<u>30%</u>	<u>31%</u>	<u>31%</u>	<u>30%</u>		

At December 31, 2009, the depreciable capital assets for governmental activities were 31.3 percent depreciated compared to 29.9 percent at December 31, 2008. These percentages provide an indicator that the City is maintaining and replacing their assets at a favorable rate.

With the City's business type activities, 30.5 percent of the asset values were depreciated at December 31, 2009 compared to 30.7 percent at December 31, 2008. These percentages provide an indicator that the City is maintaining and replacing their assets at a favorable rate.

Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of \$8.82 million. Of this amount, \$2,100,000 or 23.8 percent is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue, and a revenue bond amounting to \$2,685,000 or 30 percent. The other

major components are \$3,699,000 supported by pledged revenues generated primarily by the business-type activities of the City (Public Works Trust Fund loans) and the governmental activities of the City (LOCAL Program).

During the year, the City retired \$948,784 or 13.5 percent of the beginning outstanding borrowed debt balance.

Outstanding Borrowings

(in \$1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2009	2008	2009	2008	2009	2008	
General obligation bonds	\$ 2,100	\$ 2,325	\$ -	\$ -	\$ 2,100	\$ 2,325	-9.6%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	-	-	2,685	-	2,685	-	100.0%
Capital leases	91	-	-	-	91	-	100.0%
Bank and other loans	<u>247</u>	<u>299</u>	<u>3,699</u>	<u>4,341</u>	<u>3,946</u>	<u>4,295</u>	8.1%
Total	<u>2,438</u>	<u>\$ 2,624</u>	<u>\$ 6,384</u>	<u>\$ 4,341</u>	<u>\$ 8,822</u>	<u>\$ 6,965</u>	26.7%

During the year, the City issued \$2,685,000 in Water/Sewer bonds. The debt per capita was approximately \$319.64, which is substantially below the national average.

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

Economic Conditions Affecting the City

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Since sales taxes are considered an "elastic" revenue stream, tax collections are higher in a flourishing economy and are lower in a depressed economy. The City of Pullman is not considered a retail center, but has experienced higher than average sales tax collections. The City of Pullman's sales tax collections have been strong due to high levels of new construction. Based on the weaker building permit issuances in 2009 and 2008 decreasing scheduled construction on the Washington State University, new construction weakened sales tax collections in 2009. The City of Pullman will be negatively impacted by the expected budget reductions facing Washington State University. The City of Pullman is expected to continue to face challenges from significant increases to medical insurance premiums.

Contacting the City's Financial Management

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

**City of Pullman
Statement of Net Assets
December 31, 2009**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,607,949	\$ 5,590,824	\$ 14,198,773
Investments			-
Receivables (net of allowance for uncollectibles)	1,125,430	1,065,794	2,191,224
Due from other government units	616,154	483,435	1,099,589
Internal balances		1,184,420	1,184,420
Inventories	161,201	347,370	508,571
Prepays	25,323	8,842	34,165
Deferred charges			
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	616,437	29,110	645,547
Investments	577,438	501,324	1,078,762
Intergovernmental receivable	857		857
Permanently restricted:			
Investments			
Capital assets (net of accumulated depreciation):			
Land	1,301,019	959,169	2,260,188
Buildings and system	2,673,177	5,009,888	7,683,065
Improvements other than buildings	2,457,189	14,445,999	16,903,188
Machinery and equipment	2,781,031	9,938,634	12,719,665
Infrastructure	19,352,510		19,352,510
Construction in progress	2,691,415	15,199,957	17,891,372
Total assets	<u>42,987,130</u>	<u>54,764,766</u>	<u>97,751,896</u>
LIABILITIES			
Accounts payable and other current liabilities	430,001	126,732	556,733
Matured long term debt			-
Custodial deposits	8,438	-	8,438
Accrued interest payable	5,796	45,795	51,591
Accrued wages and benefits	818,651	304,483	1,123,134
Compensated absences	484,321	135,143	619,464
Unearned revenue	168,722	10,768	179,490
Liabilities payable from restricted assets	10,000	29,810	39,810
Noncurrent liabilities:			
Net OPEB obligation	276,511	-	276,511
Due within one year	314,208	681,646	995,854
Due in more than one year	2,052,637	5,702,621	7,755,258
Capital Leases	70,613		70,613
Total liabilities	<u>4,639,898</u>	<u>7,036,998</u>	<u>11,676,896</u>
NET ASSETS			
Invested in capital assets, net of related debt	28,818,883	39,169,380	67,988,263
Restricted for:			
Highways and streets	-	-	-
Culture and recreation	1,713,661	-	1,713,661
Debt service	-	-	-
Perpetual care:			
Expendable	-	-	-
Nonexpendable	243,944	-	243,944
Other purposes	369,779	-	369,779
Unrestricted	<u>7,200,965</u>	<u>8,558,388</u>	<u>15,759,353</u>
Total net assets	<u>\$ 38,347,232</u>	<u>\$ 47,727,768</u>	<u>\$ 86,075,000</u>

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

**City of Pullman
Statement of Activities
For the Year Ended December 31, 2009**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 1,371,845	\$ 618,630	\$ 401,121	\$ -	\$ (352,094)	\$ -	\$ (352,094)
Public safety	9,543,194	760,152	965,658	-	(7,817,384)	-	(7,817,384)
Highways and streets	2,201,586	447,200	941,950	-	(812,436)	-	(812,436)
Culture and recreation	4,849,270	1,144,573	221,486	-	(3,483,211)	-	(3,483,211)
Interest on long-term debt	(431,152)	-	-	-	431,152	-	431,152
Total governmental activities	17,534,743	2,970,555	2,530,215	-	(12,033,973)	-	(12,033,973)
Business-type activities:							
Utilities	6,022,084	7,070,171	291,538	1,103,580	-	2,443,205	2,443,205
Transit	2,513,542	1,498,045	1,865,360	2,500	-	852,363	852,363
Total business-type activities	8,535,626	8,568,216	2,156,898	1,106,080	-	3,295,568	3,295,568
Total primary government	\$ 26,070,369	\$ 11,538,771	\$ 4,687,113	\$ 1,106,080	(12,033,973)	3,295,568	(8,738,405)
General revenues:							
Property taxes					5,050,199	-	5,050,199
Sales taxes					2,896,161	-	2,896,161
Utility taxes					3,533,988	-	3,533,988
Business taxes					257,225	-	257,225
Excise taxes					-	-	-
Other taxes					719,221	-	719,221
Grants and contributions not restricted to specific programs					-	-	-
Unrestricted investment earnings					222,857	20,224	243,081
Loss on sale of capital assets					-	-	-
Transfers					(108,815)	-	(108,815)
Total general revenues and transfers					12,570,836	20,224	12,591,060
Prior year adjustments					-	-	-
Change in net assets					536,863	3,315,792	3,852,655
Prior year net asset change for this statement					37,810,369	(915,663)	(915,663)
Net assets - beginning					\$ 38,347,232	\$ 47,727,768	\$ 83,138,008
Net assets - ending							\$ 86,075,000

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

**City of Pullman
Balance Sheet
Governmental Funds
December 31, 2009**

	General	Streets	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,786,340	\$ 2,560,181	\$ 2,353,573	\$ 7,700,094
Cash with fiscal agent	-	-	10,000	10,000
Investments	-	-	-	-
Receivables (net of allowance for uncollectibles)	732,366	424,619	33,136	1,190,121
Due from other funds	-	-	-	-
Due from other governmental units	609,554	8,297	-	617,851
Inventories	-	-	-	-
Prepaid items	7,533	-	-	7,533
Intergovernmental receivable - restricted	-	-	-	-
Total assets	<u>4,135,793</u>	<u>2,993,097</u>	<u>2,396,709</u>	<u>9,525,599</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	17,749	34,221	26,943	78,913
Accrued wages and benefits	787,505	29,233	3,525	820,263
Custodial accounts	8,438	-	-	8,438
Due to other funds	-	-	1,698	1,698
Customer deposits	213,102	-	-	213,102
Matured bonds payable	-	-	10,000	10,000
Deferred revenue	141,563	-	27,159	168,722
Unearned revenue	-	-	-	-
Liabilities payable from restricted assets	-	-	-	-
Total liabilities	<u>1,168,357</u>	<u>63,454</u>	<u>69,325</u>	<u>1,301,136</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Other	-	-	613,723	613,723
Unreserved, reported in:				
General fund	2,967,436	-	-	2,967,436
Special revenue funds	-	2,929,643	884,767	3,814,410
Capital projects funds	-	-	828,894	828,894
Permanent fund	-	-	-	-
Total fund balances	<u>2,967,436</u>	<u>2,929,643</u>	<u>2,327,384</u>	<u>8,224,463</u>
Total liabilities and fund balances	<u>\$ 4,135,793</u>	<u>\$ 2,993,097</u>	<u>\$ 2,396,709</u>	

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

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

28,875,828

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

4,237,011

Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.

(2,990,070)

Net assets of governmental activities

\$ 38,347,232

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

City of Pullman
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Streets	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 4,036,237	\$ 244,187	\$ 769,775	\$ 5,050,199
Sales	2,896,161	-	-	2,896,161
Utility	2,387,482	1,146,506	-	3,533,988
Business	-	-	257,225	257,225
Excise	-	-	-	-
Other	719,221	-	-	719,221
Licenses and permits	383,155	390	-	383,545
Intergovernmental	1,431,028	941,951	24,666	2,397,645
Charges for services	2,234,941	100,000	10,730	2,345,671
Fines	105,829	-	-	105,829
Investment earnings	76,203	1,315	145,058	222,576
Contributions and donations	132,407	-	165	132,572
Facility rentals	71,542	-	-	71,542
Other miscellaneous revenues	31,569	1,644	-	33,213
Total revenues	<u>14,505,775</u>	<u>2,435,993</u>	<u>1,207,619</u>	<u>18,149,387</u>
EXPENDITURES				
Current:				
General government	1,352,811	-	-	1,352,811
Public safety	9,382,239	-	-	9,382,239
Highway and streets	258,910	1,728,291	-	1,987,201
Transportation	-	-	-	-
Economic and physical development	-	-	562	562
Culture and recreation	3,913,927	-	823,863	4,737,790
Debt service:				
Principal	-	-	225,000	225,000
Debt issuance	-	-	-	-
Interest	-	-	95,390	95,390
Debt service costs	-	-	607	607
Capital outlay:				
Land	-	-	-	-
Buildings	-	-	53,095	53,095
Highway and streets	-	-	-	-
Improvements	-	736,024	213,309	949,333
Total expenditures	<u>14,907,887</u>	<u>2,464,315</u>	<u>1,411,826</u>	<u>18,784,028</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(402,112)</u>	<u>(28,322)</u>	<u>(204,207)</u>	<u>(634,641)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	75,660	-	57,285	132,945
Transfers out	(137,892)	(180,593)	(18,552)	(337,037)
Bond proceeds	-	-	-	-
Prior year adjustments and change in reserves	-	-	(54)	(54)
Total other financing sources and uses	<u>(62,232)</u>	<u>(180,593)</u>	<u>38,679</u>	<u>(204,146)</u>
Net change in fund balances	<u>(464,344)</u>	<u>(208,915)</u>	<u>(165,528)</u>	<u>(838,787)</u>
Fund balances - beginning	3,431,780	3,138,558	2,492,912	9,063,250
Fund balances - ending	<u>\$ 2,967,436</u>	<u>\$ 2,929,643</u>	<u>\$ 2,327,384</u>	<u>\$ 8,224,463</u>

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

City of Pullman
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended December 31, 2009

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

Net change in fund balances- total governmental funds	\$ (838,787)
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.	407,155
The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net assets	988,918
The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal; of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	225,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(276,511)
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	31,088
Change in net assets of governmental activities	<u>536,863</u>

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

City of Pullman
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 4,086,612	\$ 4,086,612	\$ 4,036,237	\$ (50,375)
Sales	2,979,629	2,979,629	2,896,161	(83,468)
Utility	2,509,009	2,524,259	2,387,482	(136,777)
Other	753,983	753,983	719,221	(34,762)
Licenses and permits	510,290	510,290	383,155	(127,135)
Intergovernmental	1,348,763	1,377,097	1,431,028	53,931
Charges for services	2,099,143	2,099,143	2,234,941	135,798
Fines	111,500	111,500	105,829	(5,671)
Investment earnings	136,500	136,500	76,203	(60,297)
Contributions and donations	25,010	141,638	132,407	(9,231)
Facility rentals	47,000	51,000	71,542	20,542
Other miscellaneous revenues	21,200	17,210	31,569	14,359
Total revenues	14,628,639	14,788,861	14,505,775	(283,086)
EXPENDITURES				
Current:				
General government:				
Council	140,265	158,265	152,709	5,556
Manager	175,946	178,085	173,191	4,894
Attorney	84,815	99,815	98,579	1,236
Personnel	98,104	99,248	94,976	4,272
Finance and administration	805,584	804,287	706,035	98,252
Other - unclassified	191,009	191,009	127,321	63,688
Total general government	1,495,723	1,530,709	1,352,811	177,898
Public safety:				
Police	5,081,745	5,169,383	4,988,644	180,739
Fire	3,887,796	4,240,684	4,049,751	190,933
Inspection	351,355	353,966	316,542	37,424
Total public safety	9,320,896	9,764,033	9,354,937	409,096
Highway and streets	310,956	313,689	258,910	54,779
Culture and recreation	4,426,049	4,192,579	3,913,927	278,652
Total expenditures	15,553,624	15,801,010	14,880,585	920,425
Excess of revenues over expenditure:	(924,985)	(1,012,149)	(374,810)	637,339
OTHER FINANCING SOURCES (USES)				
Transfers in		74,800	75,660	860
Transfers out	(117,245)	(117,245)	(137,892)	(20,647)
Capital leases	(27,302)	(27,302)	(27,302)	-
Prior year adjustments and change in reserves	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	(144,547)	(69,747)	(89,534)	(19,787)
Net change in fund balances	(1,069,532)	(1,081,896)	(464,344)	617,552
Fund balances - beginning	3,431,780	3,431,780	3,431,780	-
Fund balances - ending	\$ 2,362,248	\$ 2,349,884	\$ 2,967,436	\$ 617,552

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

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 175,000	\$ 175,000	\$ 244,187	\$ 69,187
Sales			-	-
Utility	1,050,000	1,050,000	1,146,506	96,506
Business			-	-
Excise			-	-
Other			-	-
Licenses and permits	500	500	390	(110)
Intergovernmental	1,783,500	1,783,500	941,951	(841,549)
Charges for services	100,000	100,000	100,000	-
Fines				-
Special assessments			-	-
Investment earnings	55,000	55,000	1,315	(53,685)
Contributions and donations			-	-
Facility rentals			-	-
Other miscellaneous revenues	500	500	1,644	1,144
Total revenues	<u>3,164,500</u>	<u>3,164,500</u>	<u>2,435,993</u>	<u>(728,507)</u>
EXPENDITURES				
Current:				-
General government				-
Public safety				-
Highway and streets	1,491,605	3,341,216	1,728,291	1,612,925
Transportation				-
Economic and physical development				-
Culture and recreation				-
Debt service:				-
Principal				-
Interest				-
Debt service costs				-
Capital outlay:				-
Highway and streets				-
Improvements	717,500	717,500	736,024	(18,524)
Total expenditures	<u>2,209,105</u>	<u>4,058,716</u>	<u>2,464,315</u>	<u>1,594,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>955,395</u>	<u>(894,216)</u>	<u>(28,322)</u>	<u>865,894</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				-
Transfers out		(141,000)	(180,593)	(39,593)
Prior year adjustments and change in reserves				-
Total other financing sources and uses	<u>-</u>	<u>(141,000)</u>	<u>(180,593)</u>	<u>(39,593)</u>
Net change in fund balances	955,395	(1,035,216)	(208,915)	826,301
Fund balances - beginning	3,138,559	3,138,559	3,138,559	-
Fund balances - ending	<u>\$ 4,093,954</u>	<u>\$ 2,103,343</u>	<u>\$ 2,929,644</u>	<u>\$ 826,301</u>

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

**City of Pullman
Statement of Net Assets
Proprietary Funds
December 31, 2009**

Business-type Activities-Enterprise Funds

	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,841,158	\$ 749,666	\$ 5,590,824	\$ 1,514,292
Cash with fiscal agent	-	-	-	-
Investments	-	-	-	-
Interest receivable	15,979	-	15,979	3,011
Accounts receivable	472,627	385,057	857,684	-
Due from other funds	-	10,784	10,784	-
Other current receivable	192,129	-	192,129	-
Intergovernmental receivable	311,706	160,945	472,651	-
Inventories	347,370	-	347,370	161,201
Prepaid Items	6,292	2,550	8,842	17,790
Total current assets	<u>6,187,261</u>	<u>1,309,002</u>	<u>7,496,263</u>	<u>1,696,294</u>
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Customer deposits	29,110	-	29,110	-
Investments	501,324	-	501,324	577,438
Total restricted assets	<u>530,434</u>	<u>-</u>	<u>530,434</u>	<u>577,438</u>
Deferred charges	-	-	-	-
Capital assets:				
Land	959,169	-	959,169	-
Buildings and system	6,823,736	1,865,052	8,688,788	-
Improvements other than buildings	19,493,216	98,189	19,591,405	-
Machinery and equipment	16,830,567	4,270,810	21,101,377	5,015,594
Construction in progress	15,189,957	10,000	15,199,957	-
Less accumulated depreciation	<u>(17,444,153)</u>	<u>(2,542,896)</u>	<u>(19,987,049)</u>	<u>(2,635,081)</u>
Total capital assets (net of accumulated depreciation)	<u>41,852,492</u>	<u>3,701,155</u>	<u>45,553,647</u>	<u>2,380,513</u>
Total noncurrent assets	<u>42,382,926</u>	<u>3,701,155</u>	<u>46,084,081</u>	<u>2,957,951</u>
Total assets	<u>48,570,187</u>	<u>5,010,157</u>	<u>53,580,344</u>	<u>4,654,245</u>

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

**City of Pullman
Statement of Net Assets
Proprietary Funds
December 31, 2009**

	<u>Business-type Activities-Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Utility Current Year 401</u>	<u>Transit Current Year 405</u>	<u>Totals</u>	
LIABILITIES				
Current liabilities:				
Accounts payable	121,242	5,490	126,732	55,349
Matured long term debt	-	-	-	-
Compensated absences	88,987	46,156	135,143	34,233
Accrued wages and benefits	145,148	159,335	304,483	81,024
Revenues in advance	10,768	-	10,768	-
Matured bonds payable	-	-	-	-
Matured interest payable	-	-	-	-
Accrued interest payable	45,795	-	45,795	-
Long term debt - current portion	681,646	-	681,646	53,991
Capital leases payable - current	-	-	-	-
Total current liabilities	<u>1,093,586</u>	<u>210,981</u>	<u>1,304,567</u>	<u>224,597</u>
Current liabilities payable from restricted assets:				
Customer deposits payable	29,810	-	29,810	-
Revenue bonds payable	-	-	-	-
Accrued interest payable	-	-	-	-
Total current liabilities payable from restricted assets	<u>29,810</u>	<u>-</u>	<u>29,810</u>	<u>-</u>
Noncurrent liabilities:				
Long Term Debt	2,590,000	-	2,590,000	-
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	3,112,621	-	3,112,621	-
Capital leases payable	-	-	-	-
Due to other governments	-	-	-	192,637
Total noncurrent liabilities	<u>5,702,621</u>	<u>-</u>	<u>5,702,621</u>	<u>192,637</u>
Total liabilities	<u>6,826,017</u>	<u>210,981</u>	<u>7,036,998</u>	<u>417,234</u>
NET ASSETS				
Invested in capital assets, net of related debt	35,468,225	3,701,155	39,169,380	2,133,885
Restricted for debt service	-	-	-	-
Unrestricted	6,275,945	1,098,022	7,373,967	2,103,126
Total net assets	<u>\$ 41,744,170</u>	<u>\$ 4,799,177</u>	<u>\$ 46,543,347</u>	<u>\$ 4,237,011</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>1,184,420</u>	
Net assets of business-type activities			<u>\$ 47,727,767</u>	

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

City of Pullman
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2009

	Business-type Activities-Enterprise Funds			Governmental
	Utility	Transit		Activities-
	Current Year	Current Year	Totals	Internal
				Service Funds
Operating revenues:				
Charges for sales and services				
Water and Sewer sales	\$ 6,698,194	\$ -	\$ 6,698,194	\$ -
Sewer charges pledged as security for revenue bonds	-	-	-	-
Tap fees - unpledged	134,768	-	134,768	-
Transit sales	-	1,491,648	1,491,648	-
Other services	34,292	-	34,292	3,310,217
Total operating revenues	6,867,254	1,491,648	8,358,902	3,310,217
Operating expenses:				
Costs of sales and services	5,165,684	2,766,278	7,931,962	2,409,560
Administration	78,499	279,486	357,985	339,800
Depreciation	1,128,288	256,016	1,384,304	335,164
Total operating expenses	6,372,471	3,301,780	9,674,251	3,084,524
Operating income	494,783	(1,810,132)	(1,315,349)	225,693
Nonoperating revenues (expenses):				
Intergovernmental	291,538	1,865,360	2,156,898	-
Investment earnings	20,224	-	20,224	10,379
Interest expense	(45,795)	-	(45,795)	-
Gain (Loss) on sale of fixed assets	-	-	-	(13,502)
Other nonoperating revenues (expenses)	202,917	6,397	209,314	22,401
Total nonoperating revenue (expenses)	468,884	1,871,757	2,340,641	19,278
Income before contributions and transfers	963,667	61,625	1,025,292	244,971
Capital contributions	1,103,580	2,500	1,106,080	-
Prior year adjustments	-	-	-	-
Transfers in	-	-	-	95,227
Transfers out	-	-	-	(74,800)
Change in net assets	2,067,247	64,125	2,131,372	265,399
Total net assets - beginning	39,676,924	4,735,052		3,971,612
Total net assets - ending	\$ 41,744,171	\$ 4,799,177		\$ 4,237,011
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			1,184,420	
Change in net assets of business-type activities			\$ 3,315,792	

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

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Internal Service Funds
	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 10,122,472	\$ 1,304,954	\$ 11,427,426	
Receipts from interfund services provided	-	-	-	3,368,523
Payments to suppliers	(6,441,552)	(332,601)	(6,774,152)	(2,385,575)
Payments to employees	(1,758,584)	(1,772,550)	(3,531,135)	(998,245)
Payments for interfund services used	(568,410)	(938,753)	(1,507,163)	555,119
Net cash provided by operating activities	<u>1,353,925</u>	<u>(1,738,950)</u>	<u>(385,025)</u>	<u>539,822</u>
CASH FLOWS FROM OPERATING FINANCING ACTIVITIES				
Transfers to other funds	-	-	-	(74,800)
Transfers from other funds	-	-	-	95,227
Financing available for operating purposes	-	-	-	-
Taxes available for operating purposes	-	1,146,809	1,146,809	-
Proceeds from nonoperating	-	727,748	727,748	29,042
Net cash provided (used) by noncapital and related financing activities	<u>-</u>	<u>1,874,557</u>	<u>1,874,557</u>	<u>49,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	-	-	-
Capital contributions	2,249,139	-	2,249,139	-
Purchases of capital assets	-	-	-	-
Acquisition and construction of capital assets	(3,363,739)	(163,994)	(3,527,733)	(238,464)
Principal paid on capital debt	(641,276)	-	(641,276)	(51,758)
Interest paid on capital debt	(21,616)	(301)	(21,917)	(9,715)
Proceeds from sales of capital assets	1,500,000	-	1,500,000	-
Net cash provided (used) by capital and related financing activities	<u>(277,492)</u>	<u>(164,295)</u>	<u>(441,787)</u>	<u>(299,937)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	-	-	575,000
Purchases of investments	-	-	-	(575,000)
Premiums and Discounts	-	-	-	-
Interest and dividends received	20,224	-	20,224	10,379
Net cash provided (used) by investing activities	<u>20,224</u>	<u>-</u>	<u>20,224</u>	<u>10,379</u>
Net increase in cash and cash equivalents	<u>1,096,657</u>	<u>(28,688)</u>	<u>1,067,367</u>	<u>299,733</u>
Cash and cash equivalents, January 1	<u>3,773,611</u>	<u>778,354</u>	<u>4,551,965</u>	<u>1,214,559</u>
Cash and cash equivalents, December 31	<u>\$ 4,870,268</u>	<u>\$ 749,666</u>	<u>\$ 5,619,332</u>	<u>\$ 1,514,292</u>

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

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

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

Operating income	\$ 494,783	\$ (1,810,132)	\$ (1,315,349)	\$ 225,693
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,128,288	256,016	1,384,304	335,164
Prior period adjustments	-	-	-	
(Increase) decrease in accounts receivable	(116,650)	56	(116,594)	9,052
(Increase) decrease in current receivable	(192,129)	(183,466)	(375,595)	-
(Increase) decrease in intergovernmental receivable	(19,606)	(18,426)	(38,032)	-
(Increase) decrease in interest receivable	(2,010)	-	(2,010)	9,048
(Increase) decrease in inventories	63,222	-	63,222	7,457
(Increase) decrease in prepaid items	(246)	(360)	(606)	(2,302)
Increase (decrease) in customer deposits	8,450	-	8,450	-
Increase (decrease) in accounts payable	22,709	(2,522)	20,187	(49,173)
Increase (decrease) in interest payable				
Increase (decrease) in long term obligations	(40,370)	-	(40,370)	1,782
Increase (decrease) in advance revenues	(649)	-	(649)	-
Increase (decrease) in compensated absences payable	2,617	(1,546)	1,071	1,921
Increase (decrease) in intergovernmental payables		-	-	-
Increase (decrease) in accrued wages and benefits	5,517	21,430	26,947	1,180
Total adjustments	<u>859,142</u>	<u>71,182</u>	<u>930,325</u>	<u>314,129</u>
Net cash provided by operating activities	<u>\$ 1,353,925</u>	<u>\$ (1,738,950)</u>	<u>\$ (385,025)</u>	<u>\$ 539,822</u>

NON-CASH ACTIVITIES:

Assets contributed from developers and customer \$ 227,780

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

City of Pullman
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2009

	Lawson Investment Trust Fund	Airport Agency Fund
ASSETS		
Cash	\$ 7,702	\$ 23,194
Receivables		\$ 544,052
Interest receivable	15,679	-
Investments, at fair value:		
U.S. Government securities	2,988,184	
Total investments	2,988,184	-
Total assets	3,011,565	567,246
LIABILITIES		
Accounts payable		
Custodial Accounts		567,246
Total liabilities	-	567,246
NET ASSETS		
Held in trust for pension benefits and other purposes	\$ 3,011,565	

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

City of Pullman
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2009

	<u>Lawson Gardens Investment Trust Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan members	-
Private donations	-
Other Sources	-
Total Contributions	<u>-</u>
Investment earnings:	
Interest	119,455
Net increase (decrease) in the fair value of investments	<u>(70,728)</u>
Total investment earnings	48,727
Less investment expense	
Net investment earnings	<u>48,727</u>
Total additions	<u>48,727</u>
DEDUCTIONS	
Distribution of earnings	(137,660)
Prior Year refunds of contributions	-
Total deductions	<u>(137,660)</u>
Change in net assets	(88,933)
Net assets - beginning	3,100,498
Net assets - ending	<u><u>\$ 3,011,565</u></u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" (Statement #34). This Statement provides for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2003 (for Phase 2 governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). As permitted by GASB #34, the City of Pullman delayed the implementation of the infrastructure reporting requirement to the fiscal year ending in 2007. The City implemented the basic model for fiscal year 2003 and has implemented the infrastructure-related portion for the fiscal year ending 2007. The Financial Statements and the Management Discussion and Analysis include the required infrastructure reporting and related adjustments and entries.

A. Reporting Entity

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

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

Blended Component Unit

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes, utility taxes, and other derived tax revenues are accrued in the period in which the underlying exchange transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sewer and water functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

service funds are charges to customers for sales and services. Operating expenses for enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

1. Scope of Budget

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

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

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

2. Procedures for Adopting the Original Budget

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

- a. Prior to November 1 the mayor submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by City departments during preceding months and balanced with revenue estimates made by the Finance Director.
- b. The council conducts public hearings on the proposed budget in November and December.
- c. The council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.

3. Amending the Budget

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

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

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

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

4. Excess of Expenditures Over Appropriations

The 2009 Water/Sewer Fund had \$1,715,197 worth of expenditures in excess of appropriations. The expenditures were funded by the 2009 Water/Sewer Fund reserves.

E. Assets, Liabilities and Equities

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. On December 31, 2009, the finance director was holding \$3,232,357 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund.

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

2. Temporary Investments - See Note 4.

3. Receivables

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

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered. (See Note 1-C).

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 15.

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

5. Amounts Due to and from Other Governmental Units

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

6. Inventories

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

Inventories in proprietary funds are valued by the LIFO method.

7. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable in enterprise funds. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements, if any, are described in Note 10.

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

Cash and Investments – Temporary Restrictions	\$ 616,437
Cash and Investments - for Construction	\$ 577,438
Cash and Investments – Permanent Restriction for Pension obligations(Fund 615)	\$ 0
Total Restricted Assets	\$1,193,875

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

Cash and Investments-Customer Deposits	\$ 29,110
Total Restricted Assets	\$ 29,110

8. Capital Assets (See Note 6).

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Pursuant to GASB Statement #34, an extended period of deferral (FY 2007 for Phase 2 governments) was available for the requirement to record and depreciate infrastructure assets acquired before the implementation date. The City has fully met this requirement for fiscal year 2007. Significant adjustments have occurred relating to this requirement. This category has become the largest asset class of the City and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, traffic signals, sidewalks, etc.

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

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

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

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

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

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

9. Other Property and Investments (See Note 4.)

10. Other Assets and Debits

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

11. Custodial Accounts

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

12. Compensated Absences

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

13. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

14. Long-term Debt (See Note 10).

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

15. Deferred Revenues

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

16. Other Credits

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

17. Fund Equity

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

F. Other Significant Accounting Practices

1. Budgeting, Accounting and Reporting System (BARS)

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

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

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

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

1. Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds – net effect \$28,875,828.
2. Internal service funds are included in governmental activities in the statement of net assets – net effect \$4,237,011.
3. Long-term liabilities are not reported in the funds – net effect \$(2,990,070).

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

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

1. Net change in fund balances – total governmental funds – net effect \$ (838,787).
2. Governmental funds report capital outlays as expenditures (depreciation in current period) – net effect \$407,155.
3. The net effect of various miscellaneous transactions involving changes in fund balance – net effect \$ 988,918.
4. The issuance of long term debt – net effect \$225,000.
5. Some expenses reported in the statement of activities do not require the use of current financial resources – net effect \$(276,511).
6. The net revenue of certain activities of internal service funds is reported with governmental activities – net effect \$31,088.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

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

INVESTMENTS

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

	Fair Value City		
	Owned Investments	-	Total
-			
Repurchase Agreements	\$ -		\$ -
U.S. Government Securities	1,078,762		1,078,762
Bankers' Acceptances	-		-
WA Municipal Obligations	-		-
TOTAL	\$ 1,078,762		\$ 1,078,762

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

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$1,075,000 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

NOTE 5 - PROPERTY TAXES

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

Property Tax Calendar

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

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

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

For 2009 the City levied the following property taxes on an assessed value of \$1,282,687,595 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

<u>Purpose of Levy</u>	<u>Levy Rate per \$1,000</u>	<u>Total Levy Amount</u>
General Government	\$ 2.7972	\$3,587,934
EMS Levy	0.3887	498,581
Special G.O. Bond Levy	<u>0.2204</u>	<u>281,373</u>
TOTALS	\$ 3.4063	\$4,367,888

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets as of December 31, 2009 follows:

	<u>Balance 1/1/2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2009</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,301,019	\$	\$ -	\$ 1,301,019
Construction In Progress	<u>2,621,588</u>	<u>721,345</u>	<u>651,518</u>	<u>2,691,415</u>
Total Capital Assets, Not Being Depreciated:	3,922,607	721,345	651,518	3,992,434
Capital Assets, Being Depreciated:				
Buildings	5,347,833		-	5,347,833
Other Improvements	3,258,933	592,970	-	3,851,903
Machinery and Equipment	6,968,915	446,877	276,055	7,139,741
Infrastructure	<u>24,419,779</u>	<u>747,383</u>	<u>-</u>	<u>25,167,162</u>
Total Capital Assets, Being Depreciated:	39,995,463	1,787,229	276,055	41,506,637
Less Accumulated Depreciation For:				
Buildings	(2,533,934)	(140,723)	-	(2,674,657)
Other Improvements	(1,289,858)	(104,855)	-	(1,394,713)
Machinery and Equipment	(4,148,585)	(567,002)	(356,879)	(4,358,708)
Infrastructure	<u>(5,171,461)</u>	<u>(643,192)</u>	<u>-</u>	<u>(5,814,653)</u>
Total Accumulated Depreciation	<u>(13,143,838)</u>	<u>(1,455,772)</u>	<u>(356,879)</u>	<u>(14,242,731)</u>
Total Capital Assets, Being Depreciated, Net:	<u>26,851,625</u>	<u>331,457</u>	<u>(80,824)</u>	<u>27,263,906</u>
Governmental Activities Capital Assets, Net:	<u>\$30,774,232</u>	<u>\$ 1,052,802</u>	<u>\$ 570,694</u>	<u>\$31,256,340</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 827,669	\$ 131,500	\$ -	\$ 959,169
Construction In Progress	<u>11,580,501</u>	<u>4,504,963</u>	<u>885,734</u>	<u>15,199,957</u>
Total Capital Assets, Not Being Depreciated:	12,408,170	4,636,463	885,734	16,159,126
Capital Assets, Being Depreciated:				
Plant in Service	<u>48,649,799</u>	<u>888,229</u>	<u>156,458</u>	<u>49,381,570</u>
Total Capital Assets, Being Depreciated:	48,649,799	888,229	156,458	49,381,570
Less Accumulated Depreciation For:				
Plant in Service	<u>(18,743,009)</u>	<u>(1,384,504)</u>	<u>(140,464)</u>	<u>(19,987,049)</u>
Total Accumulated Depreciation	<u>(18,743,009)</u>	<u>(1,384,504)</u>	<u>(140,464)</u>	<u>(19,987,049)</u>
Total Capital Assets, Being Depreciated, Net:	<u>29,906,790</u>	<u>(496,275)</u>	<u>15,994</u>	<u>29,394,521</u>
Business-Type Activities Capital Assets, Net:	<u>\$42,314,960</u>	<u>\$ 4,110,415</u>	<u>\$ 901,728</u>	<u>\$45,553,647</u>

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

Governmental Activities:	
General Government	\$ 231,183
Safety	\$ 106,871
Transportation	\$ 654,897
Culture and Recreation	\$ 127,656
Total Depreciation – Governmental Activities	\$1,120,607

Business-Type Activities:	
Water and Sewer	\$1,128,488
Transit	\$ 256,016
Total Depreciation – Business-Type Activities	\$1,384,504

NOTE 7 - PENSION PLANS

Substantially all City of Pullman full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

Plan Description

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

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

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees or August 31, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The

option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

There are 1,308 participating employers in PERS. Membership in PERS consisted of the following at June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	262,027

Funding Policy

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

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	5.31%*	5.31%*	5.31%*
Employee	6.00%	3.9%	5% to 15%

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$32,694	\$329,897	\$72,840
2008	\$33,593	\$349,210	\$75,671
2007	\$28,293	\$264,731	\$49,779
2006	\$14,120	\$129,226	\$25,345

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

Plan Description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 451 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	9,268
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	650
Active Plan Members Vested	13,120
Active Plan Members Non-vested	3,927
Total	29,965

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2009	\$342	\$215,512
2008	\$308	\$210,816
2007	\$356	\$193,128
2006	\$460	\$160,383

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

The Volunteer Fire Fighters' Relief and Pension Fund is a cost-sharing multiple-employer retirement system that was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability, and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of monies by the Washington State Investment Board. However, members may elect to withdraw their contribution upon termination.

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

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

As of December 31, 2009, there were a total of two individuals covered by this system one of whom is still employed and one is retired.

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

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

NOTE 8 - RISK MANAGEMENT

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 136 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public official's errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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

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

NOTE 9 – SHORT-TERM DEBT

The City had no short-term debt.

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

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

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

General Obligation Bonds and Notes:

DEBT OUTSTANDING
12/31/09

2005: \$300,000 G.O. Bonds, maturing serially to 2015; interest rates from 3.25 percent to 4.20 percent; Financed by property tax levy to construct Wawawai Pedestrian Path and road improvement on Terre View Dr.	210,000
2007: \$2,240,000 General Obligation Bonds maturing serially to 2017; interest rates from 4.00 percent to 5.00 percent; approved by voters as Proposition No. 1 on November 7, 2006 for parks, paths, and pedestrian improvements.	1,890,000

Revenue Bonds and Loans:

2009:\$2,685,000 Water and Sewer Revenue Bond; annual installments until 2029 at various rates between 3.00 and 4.75 per cent; proceeds for construction of Airport Water Line/Well. Repayments from water/sewer revenues.	2,685,000
2005: \$697,543 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for design of wastewater treatment plant digester. Repayment from water/sewer revenues.	465,028
2005: \$1,816,400 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues.	1,330,433
2005: \$595,000 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for construction of Water Well #8. Repayment from water/sewer revenues.	432,083
2005: \$526,510 State of Washington Local Option Capital Asset Lending (LOCAL) Program Loan; annual installments until 2014 at 3.08 percent and 3.57 percent; proceeds for the purchase of a new fire ladder truck. Repayment from General Fund revenues.	246,628
2006: \$1,776,500 State of Washington Public Works Trust Fund Loan; annual installments until 2016 at 0.5 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues.	1,381,722
2006: \$90,000 State of Washington Public Works Trust Fund Loan; annual installments until 2014 at 0.0 percent; proceeds for the general sewer plan update. Repayment from water/sewer revenues.	90,000

At December 31, 2009, the City has \$0 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$0 in sinking funds and reserves as required by bond indentures.

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

Year Ending December 31	Governmental Activity		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	293,991	94,510	681,646	126,583
2011	305,834	83,189	686,646	119,111
2012	312,740	71,353	686,646	113,267
2013	324,712	59,216	686,646	107,424
2014	294,351	56,750	696,646	101,581
2015-2019	815,000	72,770	1,356,035	425,130
2020-2024			710,000	296,238
2025-2029			880,000	127,960
	<u>\$2,346,628</u>	<u>\$437,788</u>	<u>\$6,384,265</u>	<u>\$1,417,294</u>

B. Refunded Debt

None

C. Conduit Debt

None

NOTE 11 - LEASES

A. Operating Leases

The City had no operating leases.

B. Capital Leases

The City had one capital lease. Replacement Defibrillators for the Fire Department were leased, matures 2013. Total lease for \$118,132, yearly payments of \$27,302. Amount due 12/31/2009 \$90,830.

NOTE 12 – CHANGES TO LONG-TERM LIABILITIES

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>1/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2009</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
General Obligation Bonds	\$2,325,000	\$ -	\$ 225,000	\$2,100,000	\$240,000
Special Assessment Debt	-	-	-	-	-
Government, Bank, and Other Loans	298,836	-	52,208	246,628	53,991
Capital Leases	-	118,132	27,302	90,830	20,217
Claims and Judgments	-	-	-	-	-
Compensated Absences	<u>329,888</u>	<u>154,433</u>	<u>-</u>	<u>484,321</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$2,953,724</u>	<u>\$272,565</u>	<u>\$ 304,510</u>	<u>\$2,921,779</u>	<u>\$314,208</u>
Business-Type Activities:					
Bonds:					
Revenue Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds	-	2,685,000	-	2,685,000	95,000
Less Deferred amounts:					
For Issuance Premiums (Discounts)	-	-	-	-	-
Special Assessment Debt	-	-	-	-	-
Government, Bank, and Other Loans	4,340,541	-	641,274	3,699,267	586,646
Capital Leases	-	-	-	-	-
Claims and Judgments	-	-	-	-	-
Compensated Absences	<u>134,072</u>	<u>1,071</u>	<u>-</u>	<u>135,143</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$4,474,613</u>	<u>2,686,071</u>	<u>\$ 641,274</u>	<u>\$6,519,410</u>	<u>\$681,646</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$34,232 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including any estimates for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, insurance policies are adequate to pay all known or pending claims except the claim described below.

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

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

On April 21, 2010 the City received notice of Violation and Intent to File Suit Under the Federal Water Pollution Control Act from the Lands Council, a not-for-profit conservation group dedicated to protecting the quality of life in the Inland Northwest. Meetings have been set with the organization to explore possibilities for resolution. Resolution may include major modifications to the Wastewater facility. Due to the uncertainty of the litigation, monetary damages and requirements for modifications, no adjustments have been made to the records of this fund.

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$2,327,384 of restricted net assets, of which \$2,327,384 is restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

A. Classification of Interfund Transactions

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
2. Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."
3. Contributions to the capital to enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.
4. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity.

The following table displays interfund balances at December 31, 2009:

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

The following table displays interfund activity during 2009:

<u>Fund Type</u>	<u>Operating Transfers</u>		<u>Residual Equity Transfers</u>	
	<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 105,842	\$ -	\$ -
Street	100,000	-	-	-
Other Gov't Funds	-	-	-	-
Internal Service	105,842	-	-	-
Agency	-	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	100,000	-	-
Totals	<u>\$ 205,842</u>	<u>\$ 205,842</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2009 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Government</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$ 332,300	\$ 141,563	\$ 609,554	\$ 258,503	\$ 1,341,920
Street Fund	324,362	-	8,297	100,257	432,916
Other Governmental Funds	<u>33,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,136</u>
Total					
Governmental Activities	<u>\$ 689,798</u>	<u>\$ 141,563</u>	<u>\$ 617,851</u>	<u>\$ 358,760</u>	<u>\$ 1,807,972</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities:					
Utility Fund	\$ 472,627	\$ 15,979	\$ 311,706	\$ -	\$ 800,312
Transit Fund	<u>385,057</u>	<u>-</u>	<u>171,729</u>	<u>-</u>	<u>556,786</u>
Total					
Business-Type Activities	<u>\$ 857,684</u>	<u>\$ 15,979</u>	<u>\$ 483,435</u>	<u>\$ -</u>	<u>\$ 1,357,098</u>

B. Payables

Payables at December 31, 2009 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 17,749	\$ 787,505	\$ 8,438	\$ 813,692
Street Fund	34,321	29,233	-	63,454
Other Governmental Funds	26,943	3,525	1,698	32,166
Reconciliation of balances in fund financial statements to government-wide financial statements	---	---	---	---
Total Governmental Activities	<u>\$ 78,913</u>	<u>\$ 820,263</u>	<u>\$ 10,136</u>	<u>\$ 909,312</u>
Business-Type Activities:				
Utility Fund	\$ 121,242	\$ 145,148	\$ -	\$ 266,390
Transit Fund	<u>5,490</u>	<u>159,335</u>	<u>-</u>	<u>164,825</u>
Total Business-Type Activities	<u>\$ 126,732</u>	<u>\$ 304,483</u>	<u>\$ -</u>	<u>\$ 431,215</u>

NOTE 17 – OTHER POSTEMPLOYMENT BENEFIT (OPEB)

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

A. Plan/Trust Description

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

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

There are 3 active police officers and firefighters covered under these plans as of December 31, 2009. There are 15 retirees receiving benefits from the plans.

The City is a participating employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of medical and other benefits provided by the Trust.

The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

B. Funding Policy

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

The Association of Washington Cities Employee Benefit Trust (“Trust”) provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$644.35 per month for non-Medicare enrolled retiree-only coverage, \$1,288.70 for non-Medicare enrolled retiree and spouse coverage, \$987.25 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare enrolled spouse) and \$685.80 for Medicare enrolled retiree and spouse coverage.

C. OPEB Cost and Obligation

The City reimbursed a fixed amount of \$96.40 per month in 2009 for a Medicare supplement for 10 retirees eligible for Medicare.

Employer validated claims for medical and hospitalization reimbursements are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims. The City also carries nursing-home coverage on all active and retired LEOFF 1 employees. During 2009, expenditures of \$193,440.38 were recognized for postretirement health care.

D. Funded Status

<u>Funded Status</u>	<u>OPEB Plan</u>
Validation Date	January 1, 2008
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability (AAL)	\$ 4,924,307
Unfunded Actuarial Unfunded Actuarial (UAAL)	\$ 4,924,307
Funded Ratio	0.00%
Covered Payroll	N/A
UAAL - Percentage of Covered Payroll	N/A
 <u>Actuarial Methods and Assumptions</u>	 <u>OPEB Plan</u>
Validation Date	January 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A

NOTE 18 - OTHER DISCLOSURES

A. Major Receivables

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

B. Related Party Transactions

There are no significant related party transactions.

C. Prior Period Adjustments

None.

D. Accounting and Reporting Changes

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

E. Subsequent Events

None.

F. Significant Revenue and Expenditure Changes

There were no significant revenue or expenditure changes.

CITY OF PULLMAN, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ending December 31, 2009

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	From Pass-Through Awards	From Direct Awards	Total
US Dept of Justice Direct Programs:					
STOP Grant	16.588	2002WFBX0022	8,177		8,177
Edward Byrne Memorial Justice Assistance Grant	16.804		21,060		21,060
JAG Multit Jurisdictional Narcotics Task Force	16.803	M09-34721-018	12,070		12,070
Total US Dept of Justice					\$ 41,307
US Dept of Transportation Direct Program from Federal Aviation Administration:					
Federal Aviation	20.106	3-53-0051-29		67,772	67,772
Federal Aviation	20.106	3-53-0051-30		113,021	113,021
Federal Aviation	20.106	3-53-0051-31		460,033	460,033
Federal Aviation	20.106	3-53-0051-32		532,384	532,384
Federal Aviation	20.106	3-53-0051-33		183,349	183,349
Total CFDA Number	20.106				\$ 1,356,559 Note 3
US Department of Transportation					
ARRA-College Hill Arterial Reconstruction	20.205	002	324,362.00		\$ 324,362
Total US Department of Transportation					\$324,362
US Dept of Transportation Indirect Awards from WA ST DOT:					
Federal FTA Operating Grant	20.509	GCa6146	475,000		475,000
ARRA-Federal FTA Capital Consolidated Grant	20.509	GCA6147	145,757		145,757
Total Federal Transit Administration:					\$ 620,757
Traffic Safety Grant					
WASPC Traffic Safety Grant	20.6		2,849.00		\$ 2,849
FEMA					
Severe storm Disaster Relief	97.036	D09-568	66,968.95		\$66,969
Total US Dept of Homeland Security					\$66,969
Total Federal Awards					\$2,412,802

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

City of Pullman

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009

Note 1: BASIS OF ACCOUNTING

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

Note 2: PROGRAM COSTS

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

Note 3: FEDERAL AVIATION ADMINISTRATION GRANTS

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



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
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