



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **City of Liberty Lake**

**Spokane County**

**For the period January 1, 2012 through December 31, 2013**

**Published November 10, 2014**

**Report No. 1012942**





**Washington State Auditor**  
**Troy Kelley**

November 10, 2014

Mayor and City Council  
City of Liberty Lake  
Liberty Lake, Washington

**Report on Financial Statements**

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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Spokane County  
January 1, 2012 through December 31, 2013**

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

**City of Liberty Lake  
Spokane County  
January 1, 2012 through December 31, 2013**

Mayor and City Council  
City of Liberty Lake  
Liberty Lake, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Liberty Lake, Spokane County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 27, 2014.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System (BARS)* manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

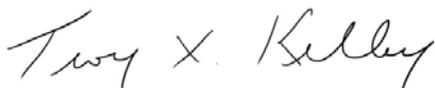
### ***COMPLIANCE AND OTHER MATTERS***

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

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

### ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

October 27, 2014

# Independent Auditor's Report on Financial Statements

**City of Liberty Lake  
Spokane County  
January 1, 2012 through December 31, 2013**

Mayor and City Council  
City of Liberty Lake  
Liberty Lake, Washington

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

We have audited the accompanying financial statements of the City of Liberty Lake, Spokane County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)***

As described in Note 1, the City of Liberty Lake has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Liberty Lake, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

***Basis for Adverse Opinion on U.S. GAAP***

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

***Adverse Opinion on U.S. GAAP***

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Liberty Lake, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

***Other Matters***

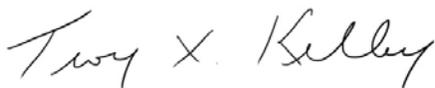
***Supplementary and Other Information***

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

October 27, 2014

# Financial Section

**City of Liberty Lake  
Spokane County  
January 1, 2012 through December 31, 2013**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
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Notes to Financial Statements – 2013  
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## ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2013  
Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	115 Tourism Promotion Fund	117 Tourism Promotion Area (TPA)
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	3,253,180	1,208,814	85,612	2
30880	Beg Fund Bal-Unreserved	4,600,672	2,505,315	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	5,548,667	4,867,565	48,119	0
320	Licenses & Permits	571,831	571,831	0	0
330	Intergovernmental Revenues	574,115	309,393	0	0
340	Charges for Goods and Services	697,509	135,653	0	54,206
350	Fines & Penalties	60,237	60,237	0	0
360	Miscellaneous Revenues	104,094	27,544	140	20
<b>Total Operating Revenues:</b>		<b>7,556,453</b>	<b>5,972,223</b>	<b>48,259</b>	<b>54,226</b>
<b>Operating Expenditures</b>					
510	General Government	1,214,220	1,196,946	0	0
520	Public Safety	1,359,436	1,359,436	0	0
530	Utilities	914	0	0	0
540	Transportation	442,431	414,806	0	0
550	Natural and Economic Environment	1,087,871	357,871	70,000	50,000
560	Social Services	9,375	9,375	0	0
570	Culture And Recreation	1,308,215	958,723	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>5,422,462</b>	<b>4,297,157</b>	<b>70,000</b>	<b>50,000</b>
<b>Net Operating Increase (Decrease):</b>		<b>2,133,991</b>	<b>1,675,066</b>	<b>-21,741</b>	<b>4,226</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	738,926	65,805	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	667,827	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>1,406,754</b>	<b>65,805</b>		
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	732,683	675,678	0	0
591-593	Debt Service	447,165	9,463	0	0
594-595	Capital Expenditures	2,074,509	195,931	0	0
597	Transfers-Out	667,827	667,827	0	0
<b>Total Nonoperating Expenditures:</b>		<b>3,922,185</b>	<b>1,548,899</b>		
<b>Increase (Decrease) in Cash and Investments</b>		<b>-381,440</b>	<b>191,972</b>	<b>-21,741</b>	<b>4,226</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	3,132,902	1,211,811	63,871	4,228
50880	End Fund Balance-Unreserved	4,339,510	2,694,290	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		212 LTGO Redemption Note (1.8)	214 City Land LTGO Bond Fund	240 City Hall LTGO Bond Fund	310 REET 1 Capital Projects Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	0	0	0	621,812
30880	Beg Fund Bal-Unreserved	0	0	700,000	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	0	230,510
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	0	945	1,130
<b>Total Operating Revenues:</b>				<b>945</b>	<b>231,640</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>					
<b>Net Operating Increase (Decrease):</b>				<b>945</b>	<b>231,640</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	168,098	161,520	0	0
<b>Total Nonoperating Revenues:</b>		<b>168,098</b>	<b>161,520</b>		
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	168,098	161,520	108,084	0
594-595	Capital Expenditures	0	0	0	67,813
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>168,098</b>	<b>161,520</b>	<b>108,084</b>	<b>67,813</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>0</b>	<b>0</b>	<b>-107,139</b>	<b>163,827</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	0	0	0	785,639
50880	End Fund Balance-Unreserved	0	0	592,860	0

The accompanying notes are an integral part of this Statement.

BARS Code		311 REET 2 Special Capital Projects Fund	312 Street Capital Fund	315 Outlet Trail Project	320 Harvard Road Mitigation Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	563,507	0	0	579,667
30880	Beg Fund Bal-Unreserved	0	1,059,151	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	220,766	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	264,722	0
340	Charges for Goods and Services	0	0	0	109,257
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	992	1,477	222	823
<b>Total Operating Revenues:</b>		<b>221,758</b>	<b>1,477</b>	<b>264,944</b>	<b>110,080</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	610,000
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>					<b>610,000</b>
<b>Net Operating Increase (Decrease):</b>		<b>221,758</b>	<b>1,477</b>	<b>264,944</b>	<b>-499,920</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	610,000
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	325,000	0	0
<b>Total Nonoperating Revenues:</b>			<b>325,000</b>		<b>610,000</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	70,594	725,297	264,944	681,394
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>70,594</b>	<b>725,297</b>	<b>264,944</b>	<b>681,394</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>151,164</b>	<b>-398,820</b>	<b>0</b>	<b>-571,314</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	714,671	0	0	8,353
50880	End Fund Balance-Unreserved	0	660,331	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		330 Library Capital Fund	334 Police Capital Fund	410 Stormwater Utility Fund	411 Aquifer Protection Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	0	0	193,364	0
30880	Beg Fund Bal-Unreserved	115,737	130,000	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	61,638	120,070
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	151	206	322	21
<b>Total Operating Revenues:</b>		<b>151</b>	<b>206</b>	<b>61,960</b>	<b>120,091</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	914	0
540	Transportation	0	0	27,625	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>				<b>28,539</b>	
<b>Net Operating Increase (Decrease):</b>		<b>151</b>	<b>206</b>	<b>33,421</b>	<b>120,091</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	13,210	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>13,210</b>			
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	37,376	0	2,946	0
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>37,376</b>		<b>2,946</b>	
<b>Increase (Decrease) in Cash and Investments</b>		<b>-24,015</b>	<b>206</b>	<b>30,475</b>	<b>120,091</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	0	0	223,838	120,091
50880	End Fund Balance-Unreserved	91,723	130,206	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		420 Golf Operations Fund	501 Unemployment Fund
<b>Beginning Cash and Investments</b>			
30810	Beg Fund Bal-Reserved	400	0
30880	Beg Fund Bal-Unreserved	90,469	0
38800/58800	Prior Period Adjustments, net	0	0
<b>Operating Revenues</b>			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	381,119	17,274
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	70,102	0
<b>Total Operating Revenues:</b>		<b>451,221</b>	<b>17,274</b>
<b>Operating Expenditures</b>			
510	General Government	0	17,274
520	Public Safety	0	0
530	Utilities	0	0
540	Transportation	0	0
550	Natural and Economic Environment	0	0
560	Social Services	0	0
570	Culture And Recreation	349,492	0
598	Intergovernmental Payments	0	0
<b>Total Operating Expenditures:</b>		<b>349,492</b>	<b>17,274</b>
<b>Net Operating Increase (Decrease):</b>		<b>101,729</b>	<b>0</b>
<b>Nonoperating Revenues</b>			
370, 380, 395, 398	Other Financing Sources	63,121	0
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
<b>Total Nonoperating Revenues:</b>		<b>63,121</b>	
<b>Nonoperating Expenditures</b>			
580, 596, 599	Other Financing Uses	57,005	0
591-593	Debt Service	0	0
594-595	Capital Expenditures	28,215	0
597	Transfers-Out	0	0
<b>Total Nonoperating Expenditures:</b>		<b>85,220</b>	
<b>Increase (Decrease) in Cash and Investments</b>		<b>79,630</b>	<b>0</b>
<b>Ending Cash and Investments</b>			
50810	End Fund Bal-Reserved	400	0
50880	End Fund Balance-Unreserved	170,100	0

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 General Fund	115 Tourism Promotion Fund	117 Tourism Promotion Area (TPA)
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	2,709,891	1,204,773	105,083	1,338
30880	Beg Fund Bal-Unreserved	4,301,370	2,829,168	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	5,425,628	4,934,033	43,382	42,683
320	Licenses & Permits	535,578	535,578	0	0
330	Intergovernmental Revenues	338,734	338,734	0	0
340	Charges for Goods and Services	431,163	120,356	0	0
350	Fines & Penalties	71,695	71,695	0	0
360	Miscellaneous Revenues	168,033	63,130	210	15
<b>Total Operating Revenues:</b>		<b>6,970,831</b>	<b>6,063,526</b>	<b>43,592</b>	<b>42,698</b>
<b>Operating Expenditures</b>					
510	General Government	913,324	871,172	0	0
520	Public Safety	1,211,462	1,211,462	0	0
530	Utilities And Environment	28,973	28,973	0	0
540	Transportation	675,553	655,499	0	0
550	Economic Environment	461,737	354,639	63,064	44,034
560	Mental & Physical Health	12,004	12,004	0	0
570	Culture And Recreation	1,152,168	772,637	0	0
598	Intergovernmental Payments	820,569	820,569	0	0
<b>Total Operating Expenditures:</b>		<b>5,275,790</b>	<b>4,726,955</b>	<b>63,064</b>	<b>44,034</b>
<b>Net Operating Increase (Decrease):</b>		<b>1,695,041</b>	<b>1,336,571</b>	<b>-19,472</b>	<b>-1,336</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	127,824	75,968	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	1,389,387	15,121	0	0
<b>Total Nonoperating Revenues:</b>		<b>1,517,211</b>	<b>91,089</b>		
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	118,754	74,459	0	0
591-593	Debt Service	447,165	9,463	0	0
594-595	Capital Expenditures	414,361	289,286	0	0
597	Transfers-Out	1,389,387	1,374,266	0	0
<b>Total Nonoperating Expenditures:</b>		<b>2,369,667</b>	<b>1,747,474</b>		
<b>Increase (Decrease) in Cash and Investments</b>		<b>842,585</b>	<b>-319,814</b>	<b>-19,472</b>	<b>-1,336</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	3,253,178	1,208,814	85,612	2
50880	End Fund Balance-Unreserved	4,600,668	2,505,313	-1	0

The accompanying notes are an integral part of this Statement.

BARS Code		212 LTGO Redemption Note (1.8)	214 City Land LTGO Bond Fund	240 City Hall LTGO Bond Fund	310 Capital Projects Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	0	0	0	449,917
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	0	170,840
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	0	0	1,055
<b>Total Operating Revenues:</b>					<b>171,895</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>					<b>171,895</b>
<b>Net Operating Increase (Decrease):</b>					<b>171,895</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	168,098	161,520	808,084	0
<b>Total Nonoperating Revenues:</b>					<b>808,084</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	168,098	161,520	108,084	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>					<b>108,084</b>
<b>Increase (Decrease) in Cash and Investments</b>					<b>171,895</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	0	0	0	621,812
50880	End Fund Balance-Unreserved	0	0	700,000	0

The accompanying notes are an integral part of this Statement.

BARS Code		311 Special Capital Projects Fund	312 Street Capital Fund	315 Outlet Trail Project	317 Pedestrian/Bicycl e Bridge Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	402,176	0	0	0
30880	Beg Fund Bal-Unreserved	0	1,007,175	9,715	5,378
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	170,840	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	956	1,977	17	11
<b>Total Operating Revenues:</b>		<b>171,796</b>	<b>1,977</b>	<b>17</b>	<b>11</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>					
<b>Net Operating Increase (Decrease):</b>		<b>171,796</b>	<b>1,977</b>	<b>17</b>	<b>11</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	50,000	0	0
<b>Total Nonoperating Revenues:</b>			<b>50,000</b>		
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	10,465	0	0	0
597	Transfers-Out	0	0	9,732	5,389
<b>Total Nonoperating Expenditures:</b>		<b>10,465</b>		<b>9,732</b>	<b>5,389</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>161,331</b>	<b>51,977</b>	<b>-9,715</b>	<b>-5,378</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	563,507	0	0	0
50880	End Fund Balance-Unreserved	0	1,059,152	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		320 Harvard Road Mitigation Fund	330 Library Capital Fund	334 Police Capital Fund	410 Stormwater Utility Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	546,604	0	0	0
30880	Beg Fund Bal-Unreserved	0	117,227	0	164,202
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	0	63,850
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	39,333	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	2,113	260	0	361
<b>Total Operating Revenues:</b>		<b>41,446</b>	<b>260</b>		<b>64,211</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	20,054
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>					<b>20,054</b>
<b>Net Operating Increase (Decrease):</b>		<b>41,446</b>	<b>260</b>		<b>44,157</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	56,564	130,000	0
<b>Total Nonoperating Revenues:</b>			<b>56,564</b>	<b>130,000</b>	
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	8,383	58,314	0	14,995
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>8,383</b>	<b>58,314</b>		<b>14,995</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>33,063</b>	<b>-1,490</b>	<b>130,000</b>	<b>29,162</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	579,667	0	0	193,364
50880	End Fund Balance-Unreserved	0	115,737	130,000	0

The accompanying notes are an integral part of this Statement.

BARS Code		420 Golf Operations Fund	501 Unemployment Fund
<b>Beginning Cash and Investments</b>			
30810	Beg Fund Bal-Reserved	0	0
30880	Beg Fund Bal-Unreserved	168,505	0
38800/58800	Prior Period Adjustments, net	0	0
<b>Operating Revenues</b>			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	271,474	0
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	55,776	42,152
<b>Total Operating Revenues:</b>		<b>327,250</b>	<b>42,152</b>
<b>Operating Expenditures</b>			
510	General Government	0	42,152
520	Public Safety	0	0
530	Utilities And Environment	0	0
540	Transportation	0	0
550	Economic Environment	0	0
560	Mental & Physical Health	0	0
570	Culture And Recreation	379,531	0
598	Intergovernmental Payments	0	0
<b>Total Operating Expenditures:</b>		<b>379,531</b>	<b>42,152</b>
<b>Net Operating Increase (Decrease):</b>		<b>-52,281</b>	<b>0</b>
<b>Nonoperating Revenues</b>			
370, 380, 395, 398	Other Financing Sources	51,856	0
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
<b>Total Nonoperating Revenues:</b>		<b>51,856</b>	
<b>Nonoperating Expenditures</b>			
580, 596, 599	Other Financing Uses	44,295	0
591-593	Debt Service	0	0
594-595	Capital Expenditures	32,918	0
597	Transfers-Out	0	0
<b>Total Nonoperating Expenditures:</b>		<b>77,213</b>	
<b>Increase (Decrease) in Cash and Investments</b>		<b>-77,638</b>	<b>0</b>
<b>Ending Cash and Investments</b>			
50810	End Fund Bal-Reserved	400	0
50880	End Fund Balance-Unreserved	90,467	0

The accompanying notes are an integral part of this Statement.

**CITY OF LIBERTY LAKE****NOTES TO FINANCIAL STATEMENTS**  
January 1, 2013 through December 31, 2013**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Liberty Lake reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Liberty Lake was incorporated on August 31, 2001, and operates under the laws of the State of Washington applicable to a second-class city with a mayor-council form of government. The City is a general purpose government and provides general government services including public safety, library, street maintenance and improvements, parks and recreation, planning, zoning, code enforcement, and general administrative services. In addition, the City of Liberty Lake owns and operates a golf course. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

**A. Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

**GOVERNMENTAL FUND TYPES:****General Fund**

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**Special Revenue Funds**

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City.

**Debt Service Funds**

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost-reimbursement basis.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law, the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City adopts annual appropriated budgets for all funds. The budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	\$ 5,105,505.00	\$ 5,062,744.61	\$ 42,760.39
110 - Street Fund	\$ 845,630.00	\$ 783,031.32	\$ 62,598.68
120 - Restricted Reserve Fund	\$ 300.00	\$ 280.00	\$ 20.00
115 - Tourism Promotion Fund	\$ 75,000.00	\$ 70,000.00	\$ 5,000.00
117 - Tourism Promotion Area (TPA)	\$ 50,000.00	\$ 50,000.00	\$ -
212 - LTGO Redemption Note (1.8)	\$ 168,112.00	\$ 168,097.51	\$ 14.49
214 - City Land LTGO Bond Fund	\$ 161,521.00	\$ 161,519.80	\$ 1.20
240 - City Hall LTGO Bond Fund	\$ 108,086.00	\$ 108,084.20	\$ 1.80
310 - REET 1 Capital Projects Fund	\$ 725,000.00	\$ 67,812.67	\$ 657,187.33
311 - REET 2 Special Capital Projects Fund	\$ 680,000.00	\$ 70,594.38	\$ 609,405.62
312 - Street Capital Fund	\$ 1,062,000.00	\$ 725,296.80	\$ 336,703.20
313 - Townsquare Capital Fund	\$ 850,000.00	\$ -	\$ 850,000.00
315 - Outlet Trail Project	\$ 280,000.00	\$ 264,944.23	\$ 15,055.77
320 - Harvard Road Mitigation Fund	\$ 1,362,319.00	\$ 1,291,393.97	\$ 70,925.03
330 - Library Capital Fund	\$ 54,000.00	\$ 37,375.60	\$ 16,624.40
334 - Police Capital Fund	\$ 130,050.00	\$ -	\$ 130,050.00
410 - Stormwater Utility Fund	\$ 62,250.00	\$ 31,485.47	\$ 30,764.53
420 - Golf Operations Fund	\$ 431,553.00	\$ 434,711.73	\$ (3,158.73)
501 - Unemployment Fund	\$ 28,780.00	\$ 17,274.22	\$ 11,505.78

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; 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's legislative body.

The Street Fund 110 and Restricted Reserve Fund 120 have been rolled into the General Fund to comply with Governmental Accounting Standards Board's Statement 54. Restricted and committed funds for these two funds do not represent a substantial portion of inflows.

The budgets above do not include non-expenditures.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments

See Note 2 - *Investments*.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of one year. The capital assets of the City are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to two-year's accrual and is payable upon separation or retirement.

Sick leave is accrued up to 640 hours. Upon separation or retirement, non-union employees do not receive payment for unused sick leave. The Liberty Lake Police Department's union employees do receive payment upon retirement for unused sick leave.

I. Long-Term Debt

See Note 5 – *Debt Service Requirements*

J. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of:

- Agency type deposits/reimbursements
- Other non-revenues/non-expenditures

K. Risk Management

The City of Liberty Lake is a member of Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013, there are 236 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and

wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000 to cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps & Motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013, were \$1,423,059.12.

The City of Liberty Lake unemployment claims are self-insured and claims are paid to the Employment Security Department. Claims paid in 2013 amounted to \$17,274.22.

L. Reserved Fund Balance

<b>Fund</b>	<b>Amount</b>	<b>Reason for Reserved Fund Balance</b>
001 - General Fund	\$ 1,211,811.27	Ordinance No. 04, 107-D, 131-A
115 - Tourism Promotion Fund	\$ 63,870.95	Ordinance No. 17
117 - Tourism Promotion Area Fund	\$ 4,228.13	Ordinance No. 127
310 - Capital Projects Fund	\$ 785,639.12	Ordinance No. 15
311 - Special Capital Projects Fund	\$ 714,670.76	Ordinance No. 16
320 - Harvard Road Mitigation Fund	\$ 8,353.06	Ordinance No. 83
410 - Stormwater Utility Fund	\$ 223,838.01	Ordinance No. 88A
411 - Aquifer Protection Fund	\$ 120,090.51	Ordinance No. 208
420 - Golf Operations Fund	\$ 400.00	Ordinance No. 116A

**NOTE 2 - INVESTMENTS**

The City's investments are either insured, registered or held by the City or its agent in the City's name.

Investments are presented at cost.

Investments by type at December 31, 2013 are as follows:

Type of Investment	Balance
Local Government Investment Pool	\$ 5,367,209.48
Bond(s)	\$ 1,000,786.28
CD(s)	\$ 200,761.99
<b>TOTAL INVESTMENTS</b>	<b>\$ 6,568,757.75</b>

**NOTE 3 - PROPERTY TAX**

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

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City's regular levy for the year 2013 was \$1.8196 per \$1,000 on an assessed valuation of \$1,075,222,305 for a total regular levy of \$1,956,425.63.

**NOTE 4 - INTERFUND LOANS**

The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance			
		1/1/2013	New Loans	Repayments	12/31/2013
320-Harvard Rd Mitigation	001 General	\$ -	\$ 610,000.00	\$ -	\$ 610,000.00
<b>TOTALS</b>		<b>\$ -</b>	<b>\$ 610,000.00</b>	<b>\$ -</b>	<b>\$ 610,000.00</b>

**NOTE 5 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City’s debt transactions for year ended December 31, 2013.

The debt service requirements for general obligation bonds, including both principle and interest, are as follows:

<u>Year</u>	<u>General Obligation Debts</u>	<u>Total Debt</u>
<b>2014</b>	\$ 437,615.64	\$ 437,615.64
<b>2015</b>	\$ 437,615.64	\$ 437,615.64
<b>2016</b>	\$ 437,615.64	\$ 437,615.64
<b>2017</b>	\$ 395,610.88	\$ 395,610.88
<b>2018</b>	\$ 269,604.00	\$ 269,604.00
<b>2019-2020</b>	\$ 350,363.90	\$ 350,363.90
<b>TOTALS</b>	<b>\$ 2,328,425.70</b>	<b>\$ 2,328,425.70</b>

**NOTE 6 - PENSION PLANS**

Substantially, all City full-time and qualifying part-time employees participate in PERS 2, PERS 3 or LEOFF 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

The City maintains a 401(a) Money Purchase Plan, which is a qualified defined contribution retirement plan. All full-time, permanent employees of the City are eligible to enroll in the 401(a) Money Purchase Plan with the exception of police officers who are members of the LEOFF 2 system.

Historical trend or other information regarding each plan is presented in both the Washington State Department of Retirement Systems’ and ICMA Retirement Corporation annual financial

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reports. A copy of the reports may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P. O. Box 48380  
Olympia, WA 98504-8380

ICMA Retirement Corporation  
777 North Capital Street, N.E.  
Washington, D.C. 20002-4200

## **NOTE 7 - OTHER DISCLOSURES**

### ***Compliance and Accountability***

There have been no material violations of finance-related legal or contractual provisions except for:

Fund 420 (Golf) expenses exceeded appropriations by \$3,158.73 due to an increase in the amount of pro shop merchandise that was purchased from special orders by the customers. Revenue from the pro shop merchandise was \$42,261 in 2013, \$13,337 was from special order sales. This increase in merchandise cost was not anticipated for the 2013 budget.

### ***Inter-local Agreements***

The City contracts for court services, jail services, emergency management services, dispatch services, street maintenance, recreation classes and animal control.

### ***Other***

The City of Liberty Lake has a Tax Increment Financing (TIF) area within its boundaries. In the Tax Increment Financing district located north of I-90, the City does not receive the full increase in property tax revenue resulting from new construction and improvements. For this area, 75% of property taxes above the 2006 baseline are dedicated to the TIF fund managed by Spokane County. In 2013, approximately \$135,863.12 was dedicated to the TIF fund out of the City's regular property tax levy for infrastructure development projects. Calculations are performed by the Spokane County Treasurer's Office in January.

The City also issued a check to Spokane County in 2013 for a total of \$610,000 to be invested in the LIFT (Local Infrastructure Financing Tool) to obtain the full amount of the tax distributions from the State. Per Resolution 07-103 and Resolution 07-105, the City is the participating local government and participating taxing district in the Revenue Development Area.

In 2012, the City reserved \$700,000 to retire the remaining debt for the City Hall Long-term General Obligation Bond. The final bond payment will be made in June of 2014 when the prepayment penalty on the interest is expired resulting in a long-term interest savings of \$70,000.

**CITY OF LIBERTY LAKE****NOTES TO FINANCIAL STATEMENTS**  
January 1, 2012 through December 31, 2012**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**A. Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

**GOVERNMENTAL FUND TYPES:****General Fund**

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**Special Revenue Funds**

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City.

**Debt Service Funds**

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost-reimbursement basis.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law, the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City adopts annual appropriated budgets for general, street light utility, streets, tourism promotion, tourism promotion area, restricted reserve, LTGO bonds golf course, LTGO redemption note (1.8), LTGO bond city land, LTGO bond city hall, capital projects, special capital projects, street capital projects, outlet trail project, pedestrian/bicycle bridge, Harvard Road mitigation, municipal library capital, police capital, storm water utility, golf course, and unemployment funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for

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financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
001 - General Fund	\$ 6,360,440.00	\$ 6,042,846.42	\$ 317,593.58
002 - Street Light Utility Fund	\$ 27,500.00	\$ 22,316.03	\$ 5,183.97
110 - Street Fund	\$ 670,354.00	\$ 687,579.90	\$ (17,225.90)
115 - Tourism Promotion Fund	\$ 85,000.00	\$ 63,063.69	\$ 21,936.31
117 - Tourism Promotion Area (TPA)	\$ 50,000.00	\$ 44,033.63	\$ 5,966.37
211 - LTGO Bonds 2002	\$ 63,983.00		\$ 63,983.00
212 - LTGO Redemption Note (1.8)	\$ 168,112.00	\$ 168,097.51	\$ 14.49
214 - City Land LTGO Bond Fund	\$ 161,521.00	\$ 161,519.80	\$ 1.20
240 - City Hall LTGO Bond Fund	\$ 108,086.00	\$ 108,084.20	\$ 1.80
310 - Capital Projects Fund	\$ 50,000.00		\$ 50,000.00
311 - Special Capital Projects Fund	\$ 50,000.00	\$ 10,465.65	\$ 39,534.35
315 - Outlet Trail Project	\$ 9,790.00	\$ 9,731.98	\$ 58.02
317 - Pedestrian/Bicycle Bridge Fund	\$ 5,502.00	\$ 5,388.76	\$ 113.24
320 - Harvard Road Mitigation Fund	\$ 15,000.00	\$ 8,382.95	\$ 6,617.05
330 - Library Capital Fund	\$ 92,000.00	\$ 58,313.90	\$ 33,686.10
410 - Stormwater Utility Fund	\$ 55,000.00	\$ 35,049.31	\$ 19,950.69
420 - Golf Operations Fund	\$ 472,101.00	\$ 456,741.78	\$ 15,359.22
501 - Unemployment Fund	\$ 50,000.00	\$ 42,152.49	\$ 7,847.51

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; 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's legislative body.

The Street Light Utility Fund 002, Street Fund 110 and Restricted Reserve Fund 120 have been rolled into the General Fund to comply with Governmental Accounting Standards Board's Statement 54. Restricted and committed funds for these three funds do not represent a substantial portion of inflows.

The budgets above do not include non-expenditures.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

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The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments

See Note 3 - *Investments*.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of one year. The capital assets of the City are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to two-year's accrual and is payable upon separation or retirement.

Sick leave is accrued up to 640 hours. Upon separation or retirement, non-union employees do not receive payment for unused sick leave. The Liberty Lake Police Department's union employees do receive payment upon retirement for unused sick leave.

I. Long-Term Debt

See Note 6 – *Debt Service Requirements*

J. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of:

- Agency type deposits/reimbursements
- Other non-revenues/non-expenditures

K. Risk Management

The City of Liberty Lake is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2012, there are 240 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention \$100,000. Members are responsible for a \$1,000 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$2,815,000 to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The pool bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2012, were \$1,099,472.

The City of Liberty Lake unemployment claims are self-insured and claims are paid to the Employment Security Department. Claims paid in 2012 amounted to \$42,152.49.

L. Reserved Fund Balance

<b>Fund</b>	<b>Amount</b>	<b>Reason for Reserved Fund Balance</b>
001 - General Fund	\$ 1,208,814.45	Ordinance No. 04, 107-D, 131-A
115 - Tourism Promotion Fund	\$ 85,612.29	Ordinance No. 17
117 - Tourism Promotion Area Fund	\$ 2.43	Ordinance No. 127
310 - Capital Projects Fund	\$ 621,812.03	Ordinance No. 15
311 - Special Capital Projects Fund	\$ 563,507.21	Ordinance No. 16
320 - Harvard Road Mitigation Fund	\$ 579,667.31	Ordinance No. 83
410 - Stormwater Utility Fund	\$ 193,363.84	Ordinance No. 88A
420 - Golf Operations Fund	\$ 400.00	Ordinance No. 116A

**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

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

Fund 110 expenses exceeded appropriations by \$17,225.90 due to a sidewalk project that was funded entirely by the developer. This project was not anticipated in 2012.

**NOTE 3 - INVESTMENTS**

The City's investments are either insured, registered or held by the City or its agent in the City's name.

Investments are presented at cost.

Investments by type at December 31, 2012 are as follows:

Type of Investment	Balance
Local Government Investment Pool	\$ 6,419,967.05
Bond(s)	\$ 1,001,155.78
<b>TOTAL INVESTMENTS</b>	<b>\$ 7,421,122.83</b>

**NOTE 4 - PROPERTY TAX**

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

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City’s regular levy for the year 2012 was \$1.81263 per \$1,000 on an assessed valuation of \$1,075,193,005 for a total regular levy of \$1,948,931.69.

**NOTE 5 - INTERFUND LOANS AND ADVANCES**

The City had no interfund loans and advances for 2012.

**NOTE 6 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City’s debt transactions for year ended December 31, 2012.

The debt service requirements for general obligation bonds, including both principle and interest, are as follows:

<u>Year</u>	<b>General Obligation Debts</b>	<b>Total Debt</b>
<b>2013</b>	\$ 447,078.99	\$ 447,078.99
<b>2014</b>	\$ 437,615.64	\$ 437,615.64
<b>2015</b>	\$ 437,615.64	\$ 437,615.64
<b>2016</b>	\$ 437,615.64	\$ 437,615.64
<b>2017</b>	\$ 395,610.88	\$ 395,610.88
<b>2018-2020</b>	\$ 619,967.90	\$ 619,967.90
<b>TOTALS</b>	<b>\$ 2,775,504.69</b>	<b>\$ 2,775,504.69</b>

**NOTE 7 - PENSION PLANS**

Substantially all city full-time and qualifying part-time employees participate in PERS 2, PERS 3 or LEOFF 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

The City maintains a 401(a) Money Purchase Plan, which is a qualified defined contribution retirement plan. All full-time, permanent employees of the City are eligible to enroll in the 401(a) Money Purchase Plan with the exception of police officers who are members of the LEOFF 2 system.

Historical trend or other information regarding each plan is presented in both the Washington

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State Retirement Systems' and ICMA Retirement Corporation annual financial reports. A copy of the reports may be obtained by contacting the agencies listed below:

Department of Retirement Systems  
Communications Unit  
P. O. Box 48380  
Olympia, WA 98504-8380

ICMA Retirement Corporation  
777 North Capital Street, N.E.  
Washington, D.C. 20002-4200

## **NOTE 8 - OTHER DISCLOSURES**

The City of Liberty Lake has a Tax Increment Financing (TIF) area within its boundaries. In the Tax Increment Financing district located north of I-90, the City does not receive the full increase in property tax revenue resulting from new construction and improvements. For this area, 75% of property taxes above the 2006 baseline are dedicated to the TIF fund managed by Spokane County. In 2012, approximately \$133,067.20 was dedicated to the TIF fund out of the City's regular property tax levy for infrastructure development projects. Calculations are performed by the Spokane County Treasurer's Office in January.

The City also issued two checks to Spokane County in 2012 for a total of \$521,000 to be invested in the LIFT (Local Infrastructure Financing Tool) to obtain the full amount of the tax distributions from the State. Per Resolution 07-103 and Resolution 07-105, the City is the participating local government and participating taxing district in the Revenue Development Area.

The City implemented a 6% utility tax which is levied upon the privilege of conducting an electric energy, natural or manufactured gas, telephone, solid waste collections, or cable television business within the City of Liberty Lake. The City decreased the utility tax to 3% on March 1, 2012.

In 2012, the City reserved \$700,000 to retire the remaining debt for the City Hall Long-term General Obligation Bond. The final bond payment will be made in June of 2014 when the prepayment penalty on the interest is expired resulting in a long-term interest savings of \$70,000.

At the request of the State Auditors during the 2011 audit, Fund 340-City Hall LTGO Bond Fund was renumbered Fund 240-City Hall LTGO Bond Fund.

**City of Liberty Lake**

Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>General Obligations</b>							
	251.11	General Obligation Golf Course	12/1/2017	700,576		137,841	562,735
	251.11	General Obligation City Hall	12/1/2019	643,331		80,151	563,180
	251.11	General Obligation 6.4 Acres	6/1/2020	1,018,217		116,986	901,231
	259.11	Compensated absences-Government		228,483	7,701		236,184
	263.51	Lease-purchase agreement-LLPD	6/17/2013	8,932		8,932	0
<b>Total General Obligations:</b>				<b>2,599,539</b>	<b>7,701</b>	<b>343,910</b>	<b>2,263,330</b>
<b>Revenue Obligations</b>							
	259.12	Compensated absences-Proprietary		2,569	1,851		4,420
<b>Total Revenue Obligations:</b>				<b>2,569</b>	<b>1,851</b>		<b>4,420</b>
<b>Total Liabilities:</b>				<b>2,602,108</b>	<b>9,552</b>	<b>343,910</b>	<b>2,267,750</b>

**City of Liberty Lake**

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
<b>General Obligations</b>							
	251.11	General Obligation Golf Course	12/1/2017	832,121		131,545	700,576
	251.11	General Obligation City Hall	12/1/2019	720,008		76,677	643,331
	251.11	General Obligation 6.4 Acres	6/1/2020	1,130,111		111,894	1,018,217
	259.11	Compensated absences-Government		220,994	7,489		228,483
	263.51	Lease-purchase agreement-LLPD	6/17/2013	17,362		8,430	8,932
<b>Total General Obligations:</b>				<b>2,920,596</b>	<b>7,489</b>	<b>328,546</b>	<b>2,599,539</b>
<b>Revenue Obligations</b>							
	259.12	Compensated absences-Proprietary		813	1,756		2,569
<b>Total Revenue Obligations:</b>				<b>813</b>	<b>1,756</b>		<b>2,569</b>
<b>Total Liabilities:</b>				<b>2,921,409</b>	<b>9,245</b>	<b>328,546</b>	<b>2,602,108</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

<b>Contact information for the State Auditor's Office</b>	
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<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>