



City of Liberty Lake

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Quarterly and Year-End Financial Report

Fourth Quarter 2010

February 25, 2011

Overview

The Quarterly Financial Report provides a summary budget to actual comparison of revenues and expenditures for each fund through the end of the most recently completed fiscal quarter. The report also provides end-of-year data including a summary budget to actual comparison of revenues and expenditures for the year. The information contained in this report is prepared on a cash basis.

General Fund

Revenues

Fourth Quarter

The majority of General Fund revenue collections at the end of fourth quarter closely followed projections. The City continues to be negatively impacted by the economic downturn. Total revenues, excluding non revenues and a transfer-in from the Municipal Library Fund, were slightly below fourth quarter 2009. The City experienced a 2% decline in property tax revenue compared to fourth quarter 2009. On a positive note, the City experienced a 6% increase in sales tax revenue compared to fourth quarter 2009. This is the first quarterly increase in retail sales tax revenue in over two years.

In 2010, the Governmental Accounting Standards Board (GASB) initiated GASB 54 which puts additional restrictions on the use of special revenue funds. The statement was initiated to create more uniformity with the use of funds and reduce the number of funds

used by public agencies. To comply with this new standard, the Liberty Lake City Council amended the 2010 budget to transfer the Municipal Library Fund 101 fund balance as of December 31, 2010 to the General Fund 001 and establish the Municipal Library in the General Fund. A transfer in the amount of \$107,193 was made from the Municipal Library Fund into the General Fund, representing the Library's fund balance which provides sufficient cash flow to meet daily financial needs due to uneven receipt of revenues.

End-of-Year

The City of Liberty Lake has not been immune to the economic downturn. Liberty Lake, like many cities in the state, is facing a difficult combination of a challenging economic environment combined with longer-term structural budget imbalances which make current budgeting extremely challenging.

The City relies heavily on two main funding sources, property tax and retail sales tax. Property tax is restricted to a 1% annual increase which represents approximately \$18,000 or .37% of the General Fund. The City also relies heavily on retail sales tax revenue which has declined significantly since 2008. The City experienced a 22% decline in retail sales tax revenue comparing 2008 with 2010, which represents a loss of approximately \$450,000 in annual General Fund revenue.

The City has worked diligently over the last two years to control spending to offset the shortfall in revenue. These reductions included the layoff of several full and part-time positions, as well as leaving positions vacant. There were continued reductions to supplies, services, travel, training, and equipment, as well as deferring expenditures including public safety and street maintenance and infrastructure improvements.

In 2010, the City of Liberty Lake City Council implemented a utility tax ordinance becoming effective on December 26, 2010 to provide sufficient revenue to cover an anticipated deficit in 2012 and mitigate longer-term structural budget imbalances due to a growing gap between revenues and cost of city services. Utility taxes may be levied on the gross operating revenues earned by private utilities from operations within the boundaries of a city. The tax is legally levied on the utility, not the customer, and must be paid from utility revenues. The utility tax is a common revenue source used by cities to provide for a more sustainable revenue structure because it is a stable source of revenue that tends to grow with inflation, as oppose to sales tax which is more volatile. Adopting the utility tax as part of the City's overall tax structure also reinforces the objective of revenue diversity as described in the City's financial management policies and spreads the costs of municipal services more evenly.

Through these actions, an adequate ending balance of \$1,359,560 was maintained in the General Fund, excluding a transfer-in from the Library. Revenues for the year totaled \$4,731,337, excluding non revenues and a transfer-in from the Library. This is an 11% increase over prior year, which is attributed to several large grants the City received including grants to develop Rocky Hill Park and install solar panels at the police facility. Factoring the grants out of total General Fund revenues, which are onetime revenue sources, the City experienced a 3% increase in total revenues compared to 2009. The remaining percentage increase is attributed to an increase in building revenues, including building permits and charges for services. In 2010, the City collected \$248,835 in building permit fees,

which is a 57% increase over 2009. Although building revenues have increased over the previous year, they remain significantly less than the revenues generated prior to 2009.

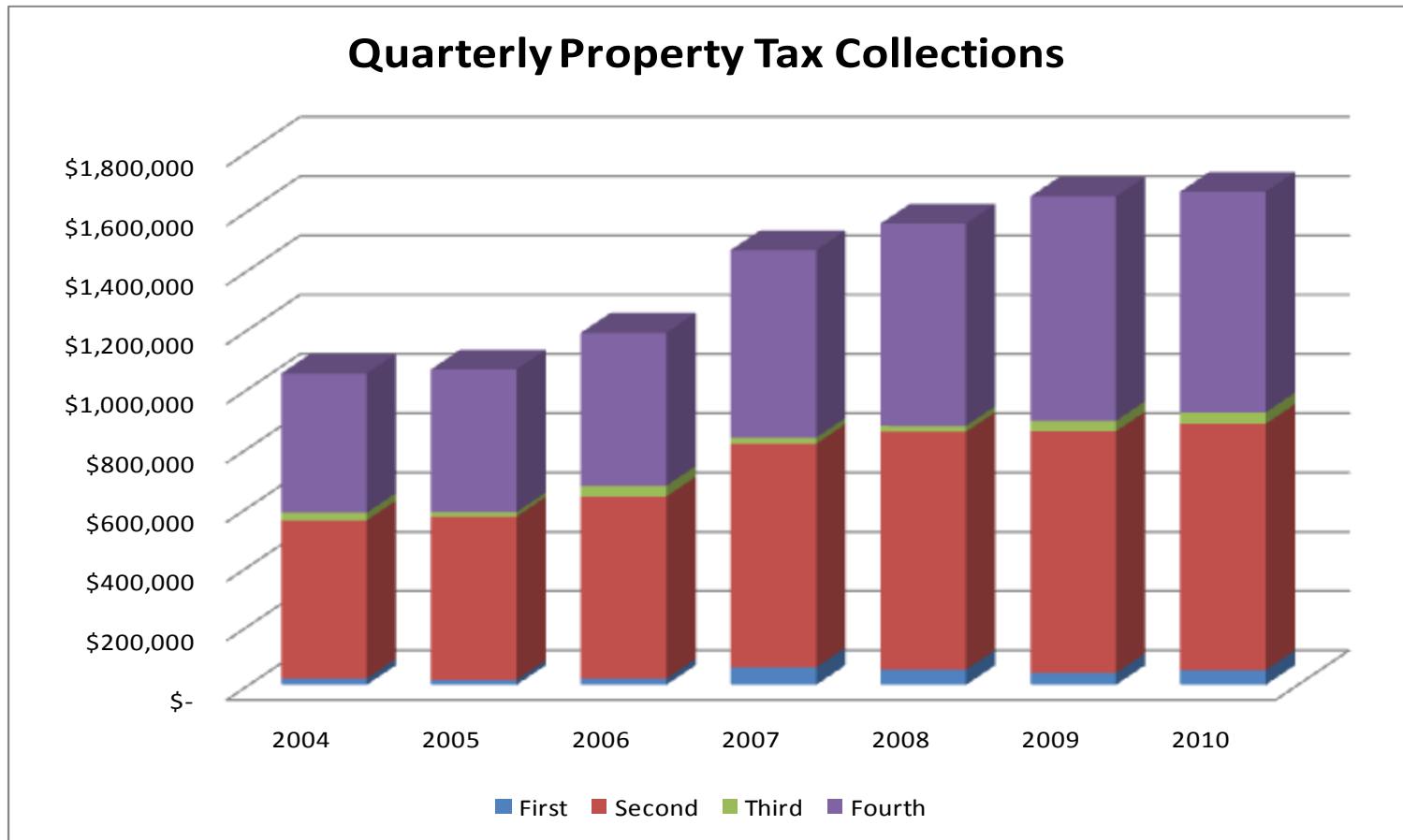
The following table shows budgeted and actual revenues for fourth quarter and end-of-year 2009 and 2010. The table also shows the percentage of revenues collected through December 31st.

General Fund: Revenues

Revenue Category	Fourth Quarter Actuals		End-of-Year Actuals		Projected		% of Revenues Collected through Fourth Quarter	
	10/01/09 - 12/31/09	10/01/10 - 12/31/10	01/01/09 - 12/31/09	01/01/10 - 12/31/10	2009	2010	2009	2010
	Sales Tax	421,760	445,574	1,708,775	1,597,465	1,854,000	1,752,079	92%
Property Tax	756,954	744,543	1,647,125	1,663,657	1,762,712	1,813,405	93%	92%
Other Taxes	51,173	57,095	220,443	246,254	193,500	207,104	114%	119%
Licenses and Permits	56,475	45,445	227,899	342,108	380,160	227,350	60%	150%
Intergovernmental Revenue	106,077	99,689	286,379	657,036	672,100	737,634	43%	89%
Charges for Services	17,636	16,516	86,215	131,401	123,800	91,000	70%	144%
Fines and Forfeitures	19,560	15,323	72,509	73,678	64,000	65,000	113%	113%
Miscellaneous Revenues	2,315	2,320	24,723	19,004	52,400	16,600	47%	114%
Other Revenues		-	-	734	-	-		
Subtotal	1,431,951	1,426,506	4,274,067	4,731,337	5,102,672	4,910,172	84%	96%
Non Revenue Sources	22,468	20,698	85,761	83,538	67,050	66,050	130%	126%
Transfer In from Library	-	107,193	-	107,193				
Total Revenues	1,454,419	1,554,397	4,359,829	4,922,069	5,169,722	4,976,222	84%	99%
General Fund Beginning Fund Balance on Oct 1st	1,285,900	1,557,351						

- *Taxes.* This category reflects the collection of sales and use taxes; property taxes; public safety; admissions taxes; and leasehold excise taxes.

Of the \$3.7 million projected, \$1.8 million is in the form of property tax. Property tax revenues are typically received during the second and fourth quarters of the year. Total property tax collections through the fourth quarter of 2010 were \$1,663,657. The table below reflects quarterly property tax collections from 2004 to 2010.

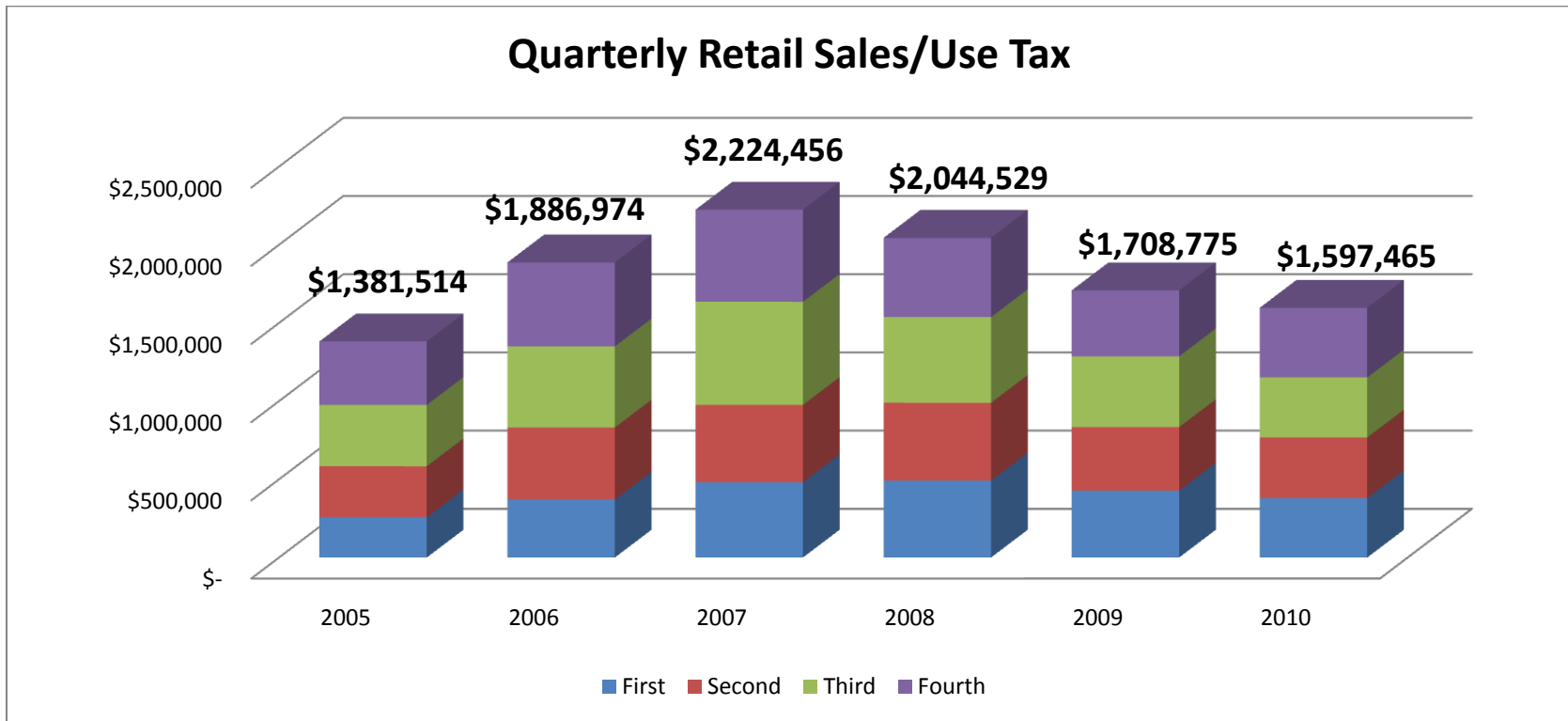


The City experienced a 6% increase in sales tax revenue compared to fourth quarter 2009. This is the first quarterly increase in retail sales tax revenue in over two years. Retail sales tax revenue increased in several business sectors including construction, telecommunications and other information services, finance, insurance, real estate, administrative support, and accommodation and food service. Sales tax collections fluctuate from quarter to quarter due to seasonal activity. The City typically receives more sales tax revenue in the second half of the year. The following table compares 2010 with 2009 retail sales tax revenue for fourth quarter and includes a breakdown by business sector.

Fourth Quarter Retail Sales and Use Tax

Business Sector	Revenue (Oct - Dec)		% Change	% of Total	
	2009	2010		2009	2010
Construction	\$ 48,319	\$ 61,567	27%	11%	14%
Manufacturing	\$ 13,683	\$ 10,773	-21%	3%	2%
Wholesale Trade	\$ 28,453	\$ 26,947	-5%	7%	6%
Retail	\$ 229,872	\$ 227,401	-1%	55%	51%
Telecommunications & Other Information Services	\$ 19,179	\$ 20,731	8%	5%	5%
Finance, Insurance, Real Estate, & Administrative Support Services	\$ 22,154	\$ 23,469	6%	5%	5%
Accommodation and Food Service	\$ 28,166	\$ 33,744	20%	7%	8%
All Other Sectors	\$ 31,934	\$ 40,942	28%	8%	9%
Total	\$ 421,760	\$ 445,574	6%	100%	100%

The following chart displays the quarterly retail sales and use tax collected since 2005. Growth in taxable retail sales over the past several years had been fueled by new construction and real estate related sectors, which had significant growth between 2005 and 2007, however growth has slowed significantly following the economic downturn.



Business Sector Descriptions

Construction: The construction industry is divided into three major segments. The *construction of building* segment includes contractors, usually called general contractors, who build residential, industrial, commercial, and other buildings. *Heavy and civil engineering construction contractors* build sewers, roads, highways, bridges, tunnels, and other projects. *Specialty trade contractors* perform specialized activities related to construction such as carpentry, painting, plumbing, and electrical work.

Manufacturing: The establishments in these industries produce a variety of goods, some of which are sold to the consumer, while others are sold as inputs to the manufacture of other products. Goods manufactured include computers and electronics, cabinets, machinery and parts to name a few.

Wholesale Trade: When consumers purchase goods, they usually buy them from a retail establishment, such as a supermarket, department store, gas station, or Internet site. When businesses, government agencies, or institutions, such as universities or hospitals, need to purchase goods, they normally buy them from wholesale trade establishments. Retail establishments purchase goods for resale to consumers, but other establishments purchase equipment, motor vehicles, office supplies, or any other items for their own use. Customers of wholesale trade firms buy goods for use in making other products, as in the case of a bicycle manufacturer that purchases steel tubing, wire cables, and paint. Customers also may purchase items for use in the course of daily operations, as when a corporation buys office furniture, paper clips, or computers.

Retail: In the retail industry goods or commodities are sold usually in small quantities directly to consumers. Retailing includes the Internet, specialty stores, department stores, supermarkets, as well as auto, boat and RV dealers.

Telecommunications & Other Information Services: The telecommunications industry delivers voice communications, data, graphics, television, and video at ever increasing speeds and in an increasing number of ways. Whereas wireline telephone communication was once the primary service of the industry, wireless communication services, Internet service, and cable and satellite program distribution make up an increasing share of the industry.

Finance and Insurance, Real Estate, & Administrative and Support Services: This category is very diverse. Under finance and insurance it can include such subcategories as credit intermediation, securities and commodity contracts, funds, trusts and other financial services. Real estate could include general real estate and leasing services. Administrative and support includes general administrative and support services, as well as waste management and remediation services.

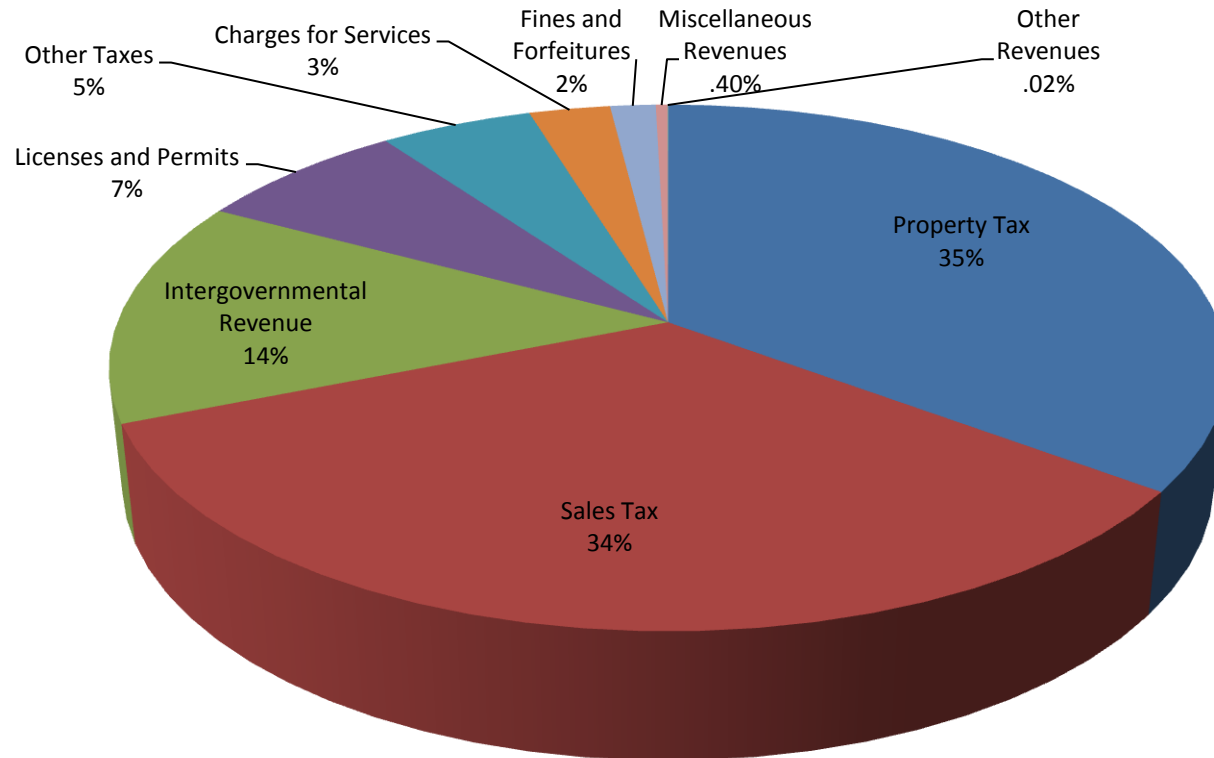
Accommodation and Food Service: This industry includes all types of lodging. While many provide simply a place to spend the night, others cater to longer stays by providing food service, recreational activities, and meeting rooms. Food services and drinking places may be the world's most widespread and familiar industry. These establishments include all types of restaurants, from fast-food eateries to formal dining establishments.

All Other Sectors: This category represents sectors not represented by those listed above. In terms of sales and use tax revenue, this category represents a small percentage of the overall revenue collected. All other sectors could include mining, utilities, transportation and warehousing, educational services, ambulatory health care services, and unclassifiable.

- *Licenses and Permits.* This revenue source reflects the collection of business licenses; solicitor licenses; cable franchise fees; building permits; and state building code surcharges. Building permit fees and cable franchise fees constitute 93% of the revenue in this category. The City received 63 new business license applications for fourth quarter and a total of 356 for the year. Total new business licenses issued for the year is very similar to 2009 in which the City received 352 new business license applications.
- *Intergovernmental.* Intergovernmental revenues are grants, entitlements, shared revenues and payments for goods and services provided by one government to another. Revenues in this category include state-distributed money to be used for criminal justice purposes; state distributed revenue to counties and cities for the cost of implementation of the DUI and other criminal justice statutes; state-distributed taxes on liquor sold at state liquor stores and agencies and on other retail sales of wine; state distributed mitigation payments as part of streamline sales tax; and lastly, state distribution of license and permit fees, penalties, forfeitures, and other income received by the Liquor Control Board.
- *Charges for Services.* Charges for Services are revenues generated from the rendering of services for a fee. Charges for services will vary from month to month due to the seasonal activities that take place throughout the year.
- *Fines and Forfeits.* Fines and forfeits revenues are received from traffic fines and infractions. Fines and forfeitures vary from month to month due to seasonal fluctuation.
- *Miscellaneous Revenues.* This category represents revenues derived from sources not otherwise provided for in other accounts. Miscellaneous revenues primarily reflect interest earned on investments; donations; and private grants awarded to the City.

Summary of Where the Money Comes From

2010 General Fund Revenue Actuals



Expenditures

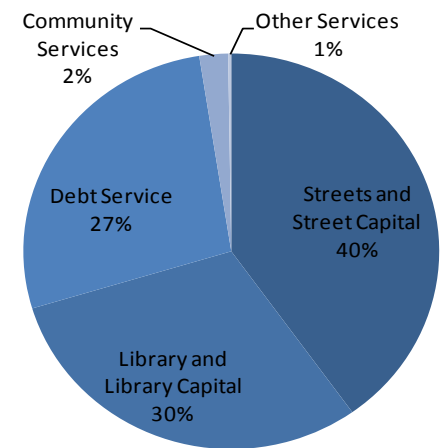
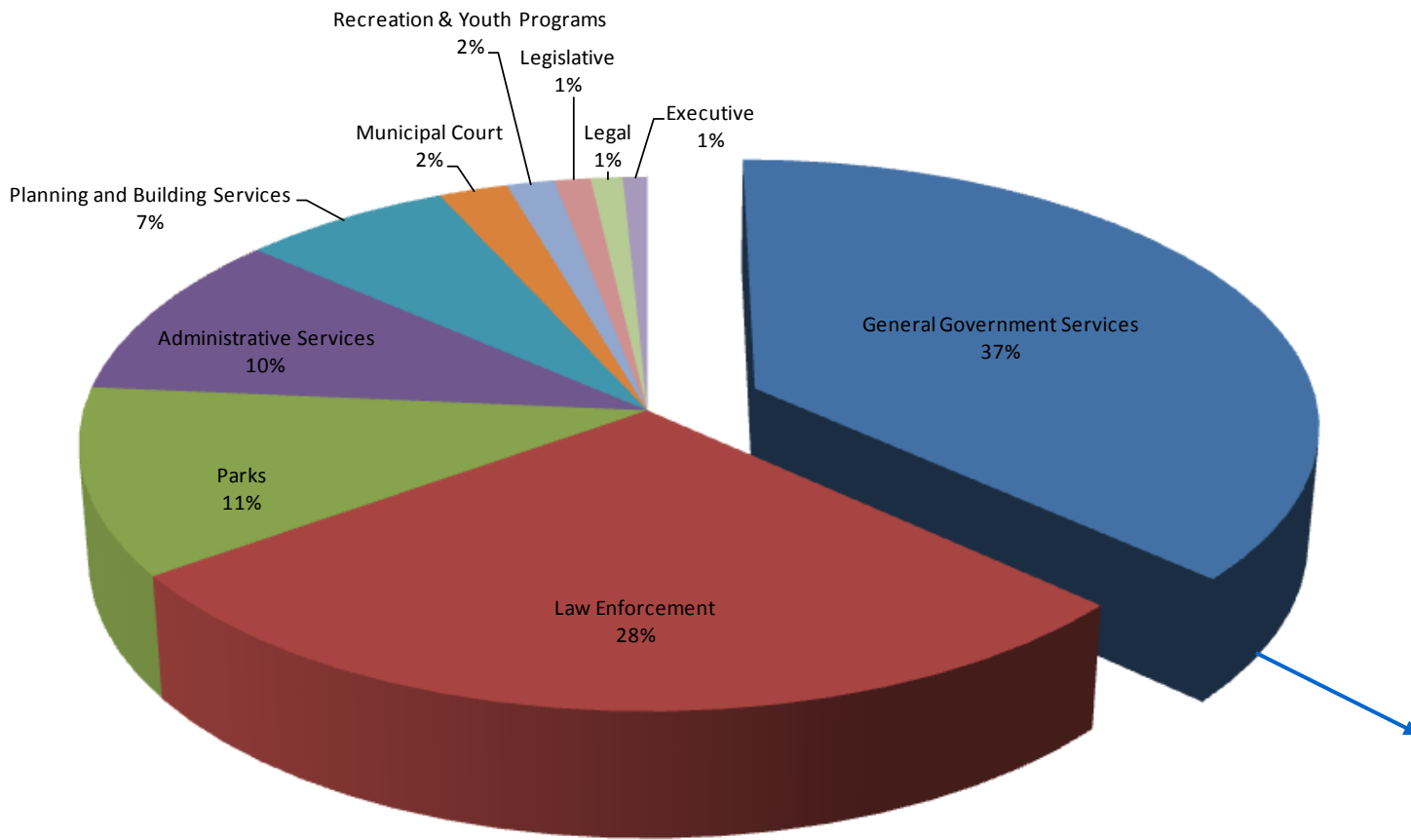
Comparing total actual to total budgeted expenditures through the fourth quarter, the General Fund was 91% of the budget which does not include non expenditures and ending balance. Expenditures totaled \$1,629,247 for fourth quarter and \$4,703,358 for the year. The following table shows budgeted and actual expenditures for fourth quarter and end-of-year for 2009 and 2010.

General Fund: Expenditures

Expenditure Category	Fourth Quarter Actuals		End-of-Year Actuals		Amended Budget		% Expended Through Fourth Quarter	
	10/01/09 - 12/31/09	10/01/10 - 12/31/10	01/01/09 - 12/31/09	01/01/10 - 12/31/10	2009	2010	2009	2010
General Government Services	569,997	899,202	1,578,215	1,733,937	1,711,170	1,850,355	92%	94%
Legislative	26,059	19,263	73,388	54,896	92,851	75,801	79%	72%
Municipal Court	42,421	34,365	127,583	104,481	148,000	152,440	86%	69%
Executive	10,762	11,717	38,724	36,931	69,011	64,311	56%	57%
Legal	16,000	16,000	48,000	48,422	48,500	48,000	99%	101%
Administrative Services	192,236	114,036	532,513	473,451	529,308	545,618	101%	87%
Law Enforcement	329,758	329,878	1,192,505	1,326,771	1,140,656	1,319,566	105%	101%
Planning and Building Services	81,899	76,696	417,920	318,785	439,802	350,593	95%	91%
Recreation & Youth Programs	12,008	8,544	82,440	72,138	123,800	84,527	67%	85%
Parks	37,232	119,546	339,029	533,547	852,702	668,372	40%	80%
Subtotal	1,318,373	1,629,247	4,430,317	4,703,358	5,155,800	5,159,583	86%	91%
Non Expenditures	35,737	15,748	81,153	57,329	76,100	67,200	107%	85%
Total Expenditures	1,354,110	1,644,995	4,511,470	4,760,688	5,231,900	5,226,783	86%	91%
General Fund Ending Balance on Dec 31st	1,305,372	1,466,753						

Summary of Where the Money Goes

General Fund Expenditure Actuals



Other Fund Revenues

The majority of revenue collections in other funds were on track for fourth quarter. Most funds in this category receive revenue through internal transfers from the General Fund including Library, Street Light Utility, Street, Restricted Reserve, Debt Service, Street Capital, Library Capital, and Unemployment. Other Fund Revenues totaled \$1,132,143 for fourth quarter 2010 and \$2,896,827 for the year. Other fund revenues were 94% of budget for the year.

Gas tax revenues in the Street Fund increased 4% over the previous year. This tax is tied to the number of gallons sold, not the price per gallon. The gas tax is collected at the state level and distributed to cities based on percent of population as compared with the State.

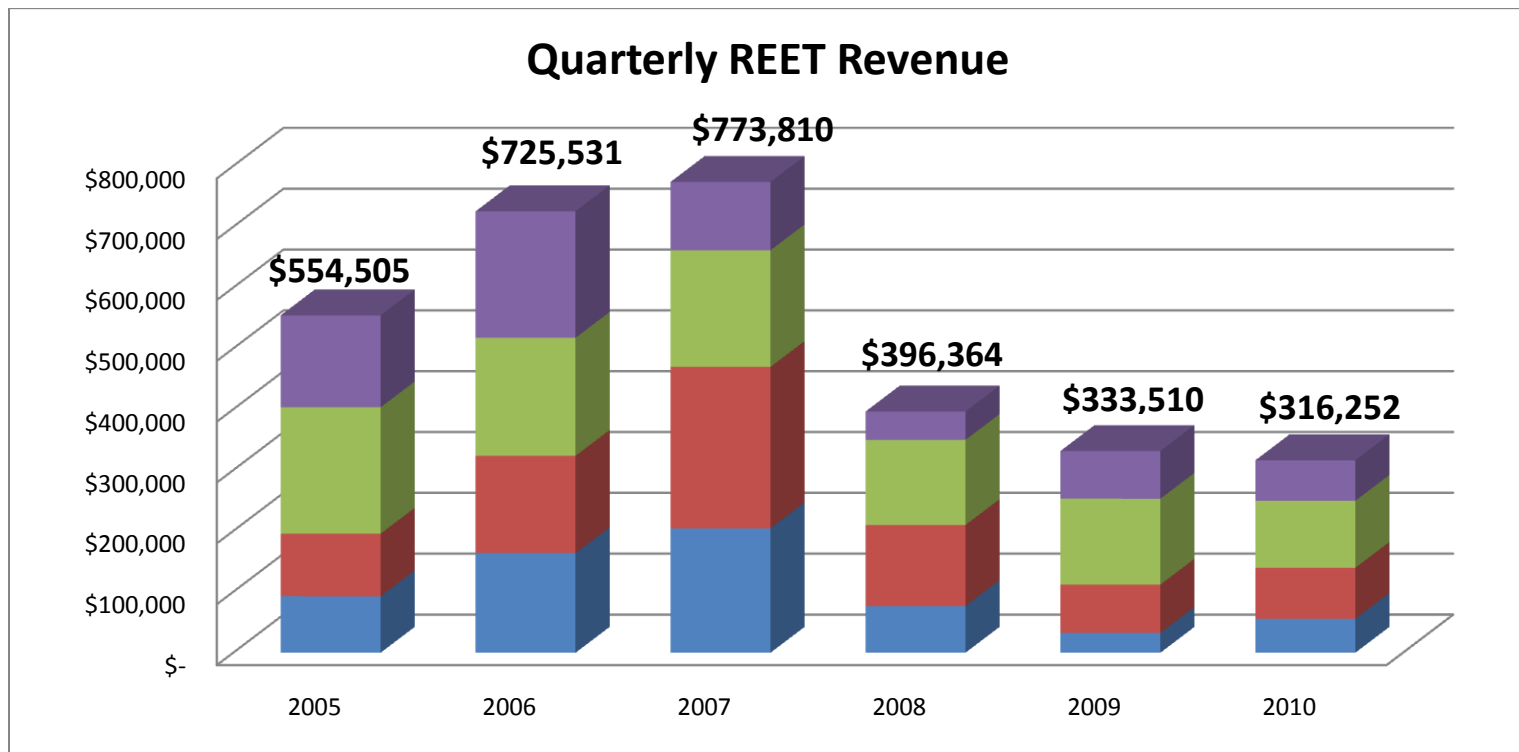
Revenue Category	Fourth Quarter Actuals		End-of-Year Actuals		Projected		% of Revenues Collected Through Fourth Quarter	
	10/01/09 - 12/31/09	10/01/10 - 12/31/10	01/01/09 - 12/31/09	01/01/10 - 12/31/10	2009	2010	2009	2010
Municipal Library	130,291	177,453	454,749	440,271	481,008	509,303	95%	86%
Street Light Utility Fund	4,875	2,657	20,000	18,156	20,000	25,000	100%	73%
Street Fund	69,891	279,498	546,190	660,684	556,553	851,147	98%	78%
Tourism Promotion Fund	10,950	13,059	36,189	38,591	41,485	36,970	87%	104%
Tourism Promotion Area Fund	6,606	7,668	21,387	23,528	28,921	22,274	74%	106%
Restricted Reserve Fund	358	773	14,001	3,279	63,092	8,000	22%	41%
G.O. Bond Debt Service	46,554	50,901	63,108	66,803	63,108	67,203	100%	99%
LTGO Redemption Note	42,003	42,003	168,098	168,098	168,402	168,112	100%	100%
City Land LTGO Bond Fund	80,760	80,760	161,520	161,520	162,439	161,520	99%	100%
Capital Projects Fund	39,361	33,251	166,850	160,008	208,041	151,000	80%	106%
Special Capital Projects Fund	39,322	33,221	166,660	156,244	208,050	151,000	80%	103%
Street Capital Projects Fund	171,260	175,588	173,957	176,887	193,900	177,808	90%	99%
Outlet Trail Project	9	6	68	29	180	75	38%	38%
Pedestrian/Bicycle Bridge Fun	5	3	39	16	132	50	30%	32%
Harvard Road Mitigation Fund	13,042	8,387	40,422	81,931	171,514	32,600	24%	251%
Library Capital Fund	-	106,793	-	106,812	-	106,936		100%
City Hall LTGO Bond Fund	54,042	54,042	108,084	108,084	108,086	108,086	100%	100%
Stormwater Utility Fund	27,047	25,992	59,953	59,392	52,868	53,919	113%	110%
Golf Course	37,683	30,851	456,983	455,592	566,086	407,800	81%	112%
Unemployment Fund	8,179	9,235	11,780	10,902	12,076	39,100	98%	28%
Total Revenues	782,237	1,132,143	2,670,039	2,896,827	3,105,941	3,077,903	86%	94%
Beginning Fund Balance for Other Funds on Oct 1st	3,242,008	3,722,929						

- *Hotel/Motel Tax (Tourism Promotion Fund)*. The Hotel/Motel Tax is derived from the sale or charge made for the furnishing of lodging by any hotel, motel, rooming house, tourist court, or trailer camp within the city limits of Liberty Lake for less than 30 consecutive days. In Spokane County, there must be 40 or more units for the tax to apply. The City levies a special excise tax of two percent.
- *Tourism Promotion Area (Tourism Promotion Area Fund)*. The City established a tourism promotion area (TPA) that encompasses the entire City of Liberty Lake and has authorized lodging charges within the established area. Lodging businesses in the TPA that have 40 or more units must collect the lodging charge from persons who purchase lodging. The City receives \$1.00 per night of stay for lodging businesses with 40 or more units with lodging revenues exceeding five hundred thousand dollars during the preceding calendar year. The City receives \$.50 per night of stay for lodging businesses with 40 or more units with lodging revenues below five hundred thousand dollars during the preceding calendar year.
- *Restricted Reserve Fund*. The Restricted Reserve Fund is generally maintained at 15% of the General Fund's projected or actual, if known, operating revenues for the fiscal year. Policies for management and use of the Restricted Reserve Fund are laid out in City of Liberty Lake Ordinance No. 107-D.

- *REET (Capital Projects Fund & Special Capital Projects Fund)*. Real Estate Excise Tax (REET) of one-quarter of one percent of the selling price is imposed on each sale of property in the City of Liberty Lake. The tax is deposited into the Capital Projects Fund and is restricted to fund any capital purpose identified in a capital improvement plan and local capital improvements including those listed in RCW 35.43.040.

There is an additional one-quarter of one percent on real estate sales within the city limits. According to state law, cities planning under GMA have the authority to levy a second quarter percent tax (REET 2). Funds from REET 2 are placed in a Special Capital Project Fund and used solely for financing capital projects as specified in a capital facilities plan element of the comprehensive plan.

REET collections have declined significantly since 2007. Comparing 2007 REET collections with 2010, REET revenues have declined 59% representing an annual loss of \$457,558 for capital projects. Fourth quarter REET revenues declined 15% in 2010 compared to 2009. Total 2010 REET collections declined by \$17,258 when compared to collections for 2009. The chart below demonstrates quarterly fluctuations in REET collections since 2005.

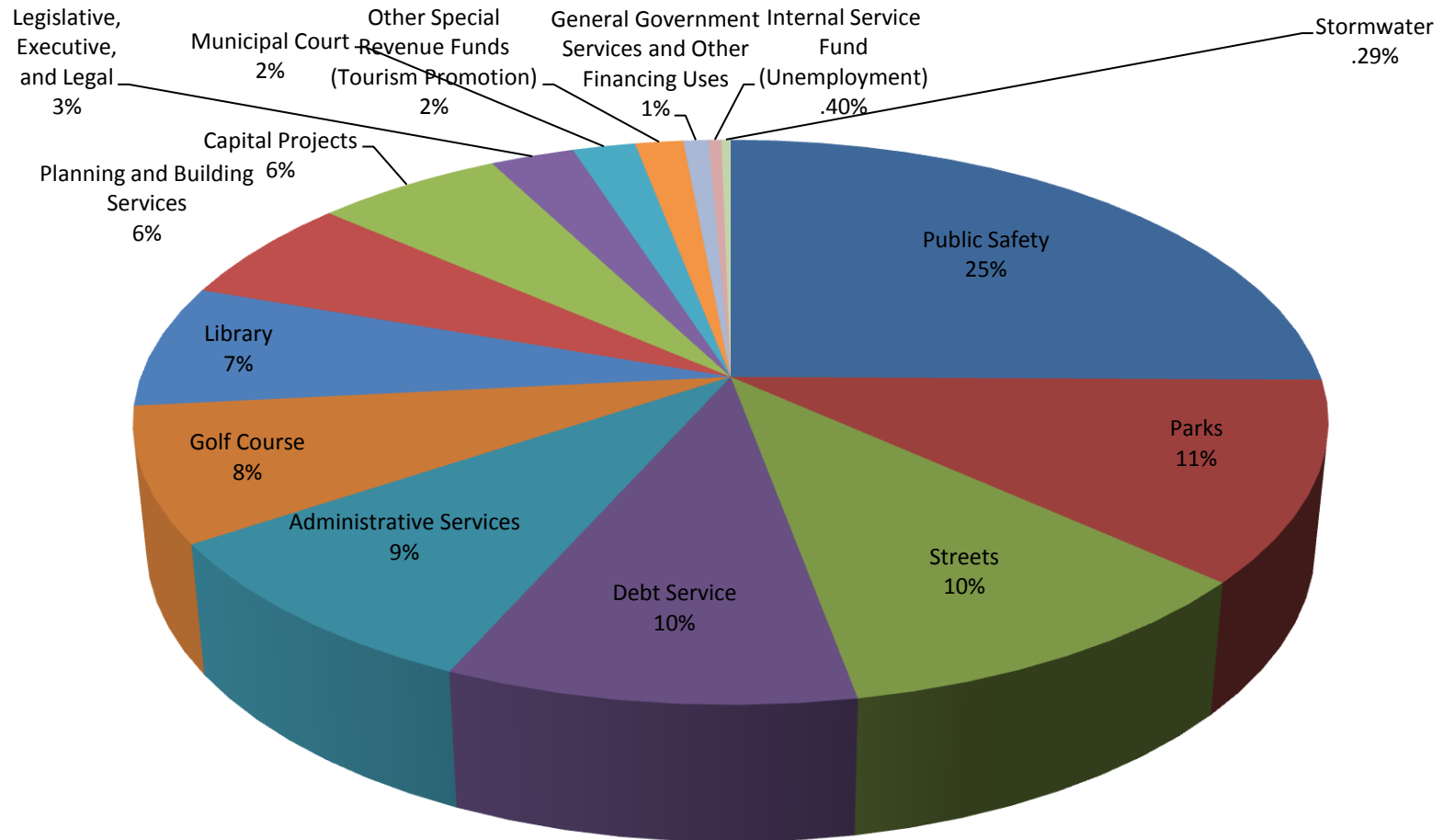


Other Fund Expenditures

Other fund expenditures typically followed the historic spending pattern. Comparing total actual to total budgeted expenditures through the fourth quarter, other fund expenditures were 80% of the budget. The City's match for the Rocky Hill Park grant project was expensed out of the Capital Projects Fund and Special Capital Projects Fund.

Expenditure Category	Fourth Quarter Actuals		End-of-Year Actuals		Amended Budget		% Expended Through Fourth Quarter	
	10/01/09 - 12/31/09	10/01/10 - 12/31/10	01/01/09 - 12/31/09	01/01/10 - 12/31/10	2009	2010	2009	2010
	Municipal Library	101,429	84,736	431,759	370,141	456,174	469,934	95%
Street Light Utility Fund	4,876	2,657	20,000	18,156	20,000	25,000	100%	73%
Street Fund	110,991	192,025	589,507	533,055	691,286	896,682	85%	59%
Tourism Promotion Fund	20,000	32,083	20,000	57,789	60,000	60,000	33%	96%
Tourism Promotion Area Fund	13,855	22,274	21,340	22,274	28,921	22,274	74%	100%
Restricted Reserve Fund	-	-	-	160	-	1,200		13%
G.O. Bond Debt Service	46,554	50,901	63,108	66,803	63,108	67,203	100%	99%
LTGO Redemption Note	42,003	42,003	168,098	168,098	168,402	168,112	100%	100%
City LL Land LTGO Bond Fund	80,760	80,760	161,520	161,520	162,439	161,520	99%	100%
Capital Projects Fund	-	26,124	79,986	156,290	212,920	172,920	38%	90%
Special Capital Projects Fund	-	26,124	90,544	156,290	212,920	172,920	43%	90%
Street Capital Projects Fund	-	-	-	-	-	-		
Outlet Trail Project	-	-	-	-	9,790	-	0%	
Pedestrian/Bicycle Bridge Fund	-	-	-	-	5,446	-	0%	
Harvard Road Mitigation Fund	-	-	-	-	-	-		
Municipal Library Capital Fund	-	-	-	-	-	-		
City Hall LTGO Bond Fund	54,042	54,042	108,084	108,084	108,086	108,086	100%	100%
Stormwater Utility Fund	9,756	(747)	28,664	15,473	54,000	55,000	53%	28%
Golf Course	93,713	106,295	429,305	439,835	494,386	446,702	87%	98%
Unemployment Fund	2,046	9,231	7,075	21,356	8,000	39,000	88%	55%
Total Expenditures	580,024	728,508	2,218,989	2,295,322	2,755,878	2,866,553	81%	80%
Transfer Remaining Balance from Library to General Fund	-	107,193	-	107,193				
Total	580,024	835,701	2,218,989	2,402,516	2,755,878	2,866,553	80.5%	83.8%
Ending Fund Balance for Other Funds on Dec 31st	3,525,059	4,019,370						

2010 Actual Expenditures All Funds



Note 1: Does not include transfers to other funds

Note 2: Does not include ending balances

Investment Summary

All investments of the City of Liberty Lake are made in compliance with Federal and State laws and in accordance with applicable legal interpretation. Primary objectives of the City of Liberty Lake investment activities are as follows:

1. **Safety:** Investments of the City are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The City's investments remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.
3. **Return on Investment:** The City's investments are designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

The City complies with State statutory guidelines and the City's investment policies which limit the types of securities purchased. These consist of U.S. Treasury securities, federally-backed agency securities, and other relatively risk-free investments including the Washington State Local Government Investment Pool administered by the Washington State Treasurer's Office. The City does not leverage its portfolio nor does it invest in derivatives.

Market Conditions

The Federal Funds rate continued to remain near historical lows during the fourth quarter as the Federal Open Market Committee (FOMC) plans for the exit of these historical low rates. For the time being, it appears the FOMC will continue to hold rates low for an "extended" period of time.

Investments on 12/31/2010

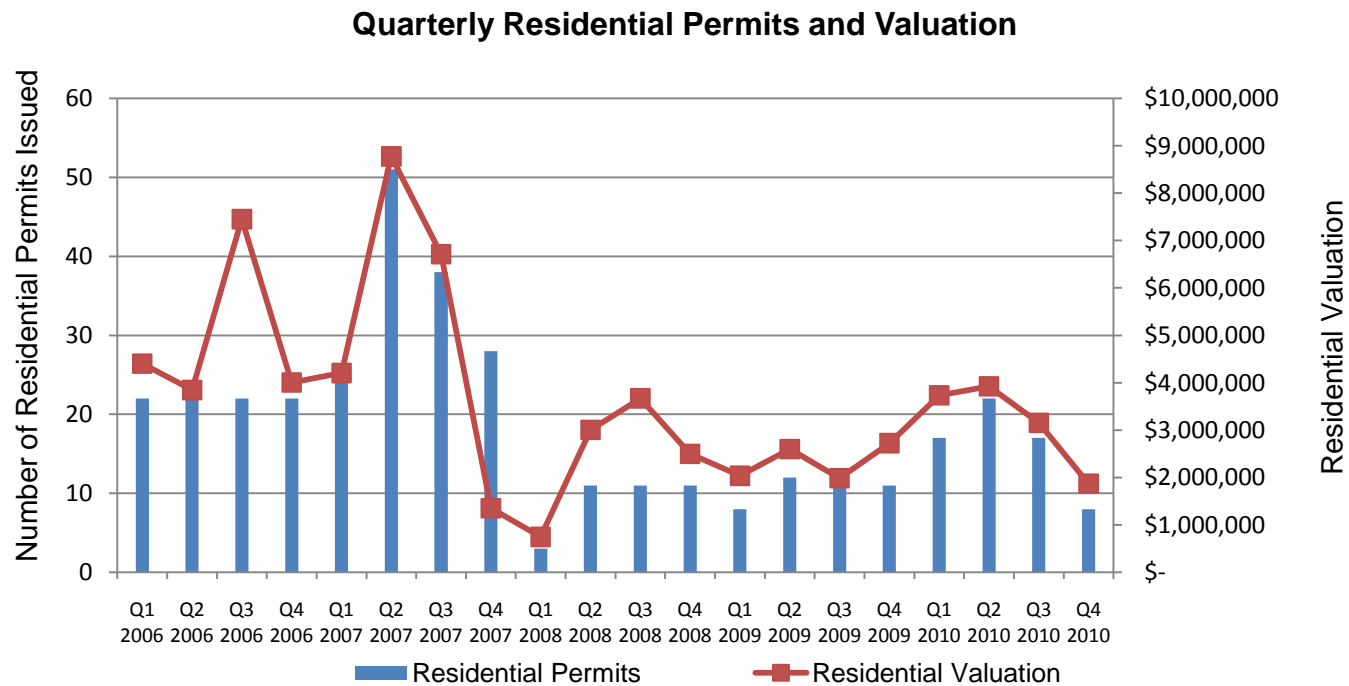
- Total Invested: \$5,115,462.80
- Total Interest Earnings for Fourth Quarter 2010: \$3,201.67

Investment	Percent of Total Investments	Yield
Washington State Local Government Investment Pool (LGIP)	100%	.26%

Local Building Activity

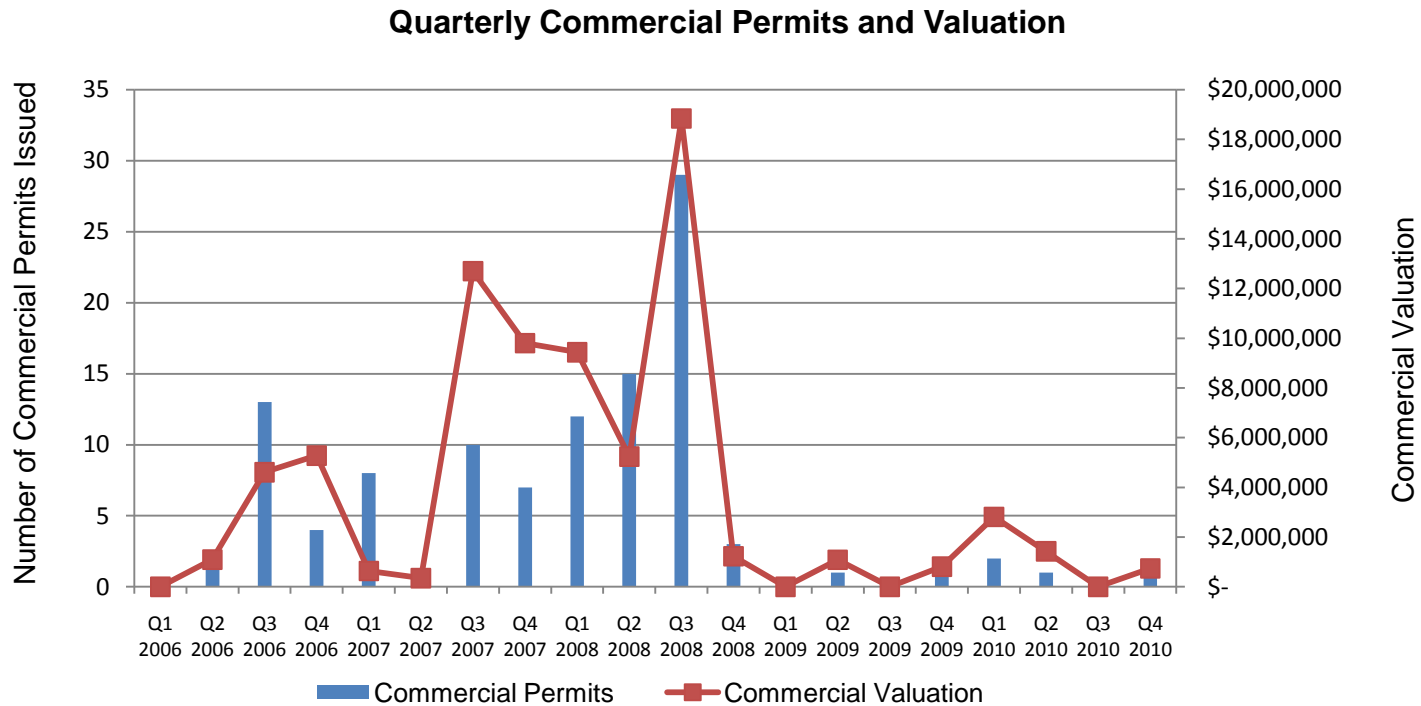
Residential

In fourth quarter 2010, eight new single family home building permits were issued compared to 11 permits issued in fourth quarter 2009. New residential valuation totaled \$1,871,091 for fourth quarter 2010, which is a decrease of 31% compared to fourth quarter 2009. There were 26 other residential permits issued in fourth quarter 2010. The chart below reflects quarterly new residential permits and valuation since 2006. Residential building activity fluctuates from quarter to quarter due to seasonal activity.



Commercial

For fourth quarter 2010, there was one new commercial permit issued compared to two issued in fourth quarter 2009. New commercial valuation totaled \$738,012 for fourth quarter 2010. Also, there were 26 other commercial permits issued in fourth quarter. The chart below represents quarterly new commercial permits and new commercial valuation since 2006. Commercial building activity fluctuates from quarter to quarter due to seasonal activity.



Summary

For more information. If you have any questions about this report, please call Jessica Platt, Administrative Services Manager at 755-6702.