

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

City of Vancouver
Clark County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010510

Issue Date
September 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 23, 2013

Mayor and City Council
City of Vancouver
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Clark County
January 1, 2012 through December 31, 2012**

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Federal Summary

City of Vancouver Clark County January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	Community Development Block Grants/Entitlement Grants
97.008	Non-Profit Security Program
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (Recovery Act)
16.808	ARRA – Edward Byrne Memorial Competitive Grant Program (Recovery Act)

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

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

Schedule of Federal Audit Findings and Questioned Costs

City of Vancouver Clark County January 1, 2012 through December 31, 2012

1. **The City of Vancouver's internal controls for monitoring equipment purchased with federal money for its Non-Profit Security Program are inadequate.**

CFDA Number and Title:	97.008 Non-Profit Security Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Clark County
Pass-through Award/Contract Number:	UA09-0088, UA09-0132, UA09-0133, UA09-0160, UA09-0162, UA10-0098, UA10-0120, UA10-0170
Questioned Cost Amount:	\$0

Background

The program is designed to promote coordination and collaboration in emergency preparedness activities among public and private community representatives, as well as State and local government agencies. During 2012, the City received donated equipment valued at a total of \$589,095, for the City's fire and police departments (\$226,870 and \$362,225, respectively). In addition, the City was reimbursed \$3,056 for training expenditures.

Description of Condition

Federal regulations require grant recipients to maintain equipment records that identify equipment purchased with federal funds and perform a physical inventory every two years. The City's fire department did not maintain adequate records to support that it had performed a physical inventory as required. Further, the department did not have adequate internal controls to ensure all equipment over \$5,000 was being tracked in its asset records appropriately.

The fire department's inventory process consisted of maintaining individual vehicle listings which were used by fire department staff to perform daily inspections of vehicles to verify equipment was still on the vehicles and in working order. These vehicle inspection were documented on checklists that did not contain enough information to specifically identify the unique assets (such as serial number), nor did the checklists include all federally acquired assets over \$5,000. Specifically, we determined that four of the 17 fire department assets which were valued above \$5,000 were not on its inspection checklists and were not inventoried.

Cause of Condition

Employees responsible for monitoring grant compliance within the fire department were not aware of federal program equipment management requirements.

Effect of Condition and Questioned Costs

When equipment records do not contain the required elements, it increases the risk that federally funded equipment may be lost, misappropriated or used for unallowable purposes. In addition, the City may not have the necessary documentation to determine if the federal government should be reimbursed for a portion of sale proceeds when disposed.

We confirmed the City still had the equipment acquired under this program in its custody and that it is being used for allowable purposes.

Recommendation

We recommend the City improve internal controls over equipment acquired with federal funds to ensure it is properly identified and tracked in compliance with federal requirements.

City's Response

The City would like to thank the State Auditor's Office and their staff for the work in this area. The City takes its responsibility for remaining accountable for compliance requirement related to equipment management seriously. As pointed out, the auditors were able to confirm our custody of all equipment. Due to staff turnover and transitions, the City was unable to provide adequate documentation of a physical inventory.

The City's Accounting Department will ensure that all fixed assets, greater than \$5,000, purchased with federal funds are recorded with in the City's financial fixed asset system. On an annual basis, in conjunction with year-end reporting, a detail list will be distributed to the functional departments utilizing such equipment to verify ownership, location of use, and other relevant information regarding the grant purchased equipment.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in

compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* [Title 44 CFR 13.32 Equipment], states in part:

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying

the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

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 Vancouver
Clark County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Vancouver
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, Clark County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 20, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

June 20, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**City of Vancouver
Clark County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Vancouver
Vancouver, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Vancouver, Clark County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 that we consider to be significant deficiencies.

City's Response to Findings

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

July 19, 2013

Independent Auditor's Report on Financial Statements

**City of Vancouver
Clark County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Vancouver
Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, Clark County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Vancouver Hilton and Convention Center Project, which is included in the City's financial information as part of the Downtown Redevelopment Authority component unit and which represents .8 percent, 4.1 percent, 72.5 percent and 53.1 percent respectively, of the assets, net position, operating revenues and operating expenses of the aggregate discretely presented component units. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Vancouver Hotel and Convention Center Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Vancouver Hotel and Convention Center Project were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general and consolidated fire funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24, police and fire pension funds on page 77 and information on postemployment benefits other than pensions on pages 78 through 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013 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

June 20, 2013

Financial Section

City of Vancouver Clark County January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012

Statement of Activities – 2012

Balance Sheet – Governmental Funds – 2012

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2012

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances Compared to Budget (GAAP Basis) and Actual – General Fund – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances Compared to Budget (GAAP Basis) and Actual – Consolidated Fire Fund – 2012

Statement of Net Position – Proprietary Funds – 2012

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2012

Statement of Cash Flows – Proprietary Funds – 2012

Statement of Net Position – Fiduciary Funds – 2012

Statement of Changes in Fiduciary Net Position – 2012

Notes to the Financial Statements - 2012

REQUIRED SUPPLEMENTARY INFORMATION

Police and Fire Pension Funds – 2012

Police and Fire OPEB Pension Funds - 2012

Notes to the Required Supplementary Information – Police and Fire Pension Funds – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards - 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is a narrative overview of the City of Vancouver's (the City's) financial activities for the fiscal year ended December 31, 2012. The information presented here should be read in conjunction with the letter of transmittal, the financial statements, and the related notes to the financial statements.

FINANCIAL HIGHLIGHTS

- City of Vancouver assets exceeded its liabilities at December 31, 2012 by \$1 billion.
- Net position invested in capital assets (net of related debt) accounts for over 79.0% of this amount, with a value of \$794.8 million.
- Of the remaining net position, \$137.6 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net position showed an increase of \$27 million from current operations in 2012. Beginning net position was restated with prior period adjustments of \$191,899. This is explained in detail in Note V.I. The government's net capital assets decreased by \$2.0 million during 2012.
- Total program revenues were \$146 million in 2012, up by \$1 million from 2011, due to increases in Charges for Services, Fees, and Fines and Forfeitures and offset by decreases in capital grant revenues and contributions. Program expenses were \$231.2 million, up by \$2.7 million from 2011. General revenues and transfers were \$116.6 million, down by \$2.5 million from last year.
- As of December 31, 2012, the City of Vancouver's governmental funds reported combined ending fund balances of \$133.5 million, which was \$6.8 million more than the prior year. About 46.1% of this total amount, or \$61.6 million, is available for spending at the government's discretion. The unassigned fund balance for the General Fund was \$4.8 million at December 31, 2012.
- The City of Vancouver's total bonded debt at December 31, 2012 was \$176.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other financial discussion and analysis of certain plans, projects and trends necessary for understanding the full context of the financial condition of the City.

Basic Financial Statements

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and, 3) notes to the financial statements. The financial section of this report also contains required supplementary information, in addition to the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements provide readers with a broad overview of the City of Vancouver's finances in a manner similar to a private-sector business. Functions of the City of Vancouver that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") are distinguished from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities").

The governmental activities of the City of Vancouver provide a full range of local government services to the public. Programs include law enforcement and public safety; fire protection; road construction and maintenance; community economic development; parks and recreation; and the issuance of permits and licenses. In addition, other general government activities include neighborhood support, a senior newsletter, and the revitalization of the downtown core area to name a few. The business-type activities of the City of Vancouver include water, sewer, drainage management and control, downtown parking, an airport, solid waste, building inspection, and a tennis center.

The Statement of Net Position presents information on all City of Vancouver's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating. Some other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The Statement of Activities presents information showing how the government's revenues and expenses impacted net position during 2012. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent to which each program relies on general revenue for funding. All changes in net position are reported using the accrual basis of accounting which requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred.

The City has identified certain entities as component units in the government-wide financial statements. These entities are the Vancouver Downtown Redevelopment Authority (DRA) and the Vancouver Public Facilities District (PFD). These two entities are shown in the government-wide financial statements as discretely presented component unit funds. For additional information, see note V.A. The City has also reported its investment in one governmental joint venture: Clark Regional Emergency Services Agency (CRESA); see note V.C.

Fund Financial Statements

A fund is a self-balancing grouping of related accounts that is used to maintain control over resources that are segregated for specific activities or objectives. The City of Vancouver, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. All of the funds of the City of Vancouver fall into one of three categories: governmental funds, proprietary funds, or fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported activities. Proprietary funds account for a government's business-type activities where all or part of the costs of activities are supported by fees and charges paid directly by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund, the Consolidated Fire Fund, GO Debt Service, and Transportation Capital Fund. These are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation.

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

To get a longer term perspective of financial balances and results of operations, we present full accrual information in the government wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. Reconciliations are provided for the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to illustrate comparisons to the governmental activities column in the government-wide statements.

The City maintains budgetary controls over all city funds. Budgetary controls ensure compliance with legal provisions embodied in the biennial appropriated budget. Governmental fund budgets are established in accordance with state law, and most are adopted on a fund level. The General Fund budget is adopted on a fund level. Personnel services are budgeted by full-time positions. Budgetary variances are discussed later in this section.

Proprietary Funds

The City has two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/sewer/drainage utility, solid waste, airport, building inspection, parking, tennis center, and fire shop operations. Internal service funds accumulate and allocate costs among the City's various functions. The City uses internal service funds to account for its computer repair and replacement, rolling stock repair and replacement, self-insurance, print shop and mailroom services, and insurance benefits.

Those revenues and expenses of internal service funds that are duplicated in other funds are eliminated in the government-wide statements. The remaining balances are allocated and included in the governmental type activities columns. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting.

In comparing the Proprietary Fund Statement of Net Position to the business-type column on the government-wide Statement of Net Position, the total net position amounts agree, needing no reconciliation. In comparing the total assets and total liabilities between the same two statements, you will notice slightly different amounts. This is because the "Advances to other funds" line on the government-wide statement combines the "Advances from other funds" (assets) and the "Advances to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

The proprietary fund financial statements provide separate information for the Water/Sewer Fund and Parking Services as these are considered major funds. All other enterprise funds are aggregated into a single presentation. Internal Service Funds are also aggregated into a single presentation, but are not included in the totals.

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning the City of Vancouver's funding of its Fire and Police employee pension obligation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. The City of Vancouver's net position total \$1,005,466,871 at December 31, 2012. The following is a condensed and comparative version of the Government-Wide Statement of Net Position.

City of Vancouver's Net Position

	Governmental Activities		Business-type Activities		Total Activities	
	2011 Restated	2012	2011 Restated	2012	2011 Restated	2012
Current and other assets	\$ 175,301,318	\$ 182,856,758	\$ 86,774,301	\$ 88,460,449	\$ 262,075,619	\$ 271,317,207
Capital assets (net of accumulated depreciation)	590,963,673	594,375,442	374,798,978	369,379,507	965,762,651	963,754,949
TOTAL ASSETS	766,074,065	777,232,200	461,899,139	457,839,956	1,227,838,270	1,235,072,156
Long-term liabilities	141,508,339	135,440,553	88,745,810	77,317,322	230,254,149	212,757,875
Other liabilities	14,786,184	13,097,051	4,372,182	3,750,359	19,158,366	16,847,410
TOTAL LIABILITIES	156,294,523	148,537,604	93,117,992	81,067,681	249,412,515	229,605,285
NET POSITION						
Net investment in capital assets	494,576,336	500,451,612	288,493,306	294,317,397	783,069,642	794,769,009
Restricted	75,636,451	65,339,206	5,405,918	7,745,715	81,042,369	73,084,921
Unrestricted	39,566,755	62,903,778	74,881,923	74,709,163	114,448,678	137,612,941
TOTAL NET POSITION	\$ 609,779,542	\$ 628,694,596	\$ 368,781,147	\$ 376,772,275	\$ 978,425,755	\$ 1,005,466,871

The 2011 values were restated for prior period adjustments to capital assets and recording of revenue in correct period. Please see Note V.I. The largest portion of the City's net position, 79%, reflects its investment in capital, less any related debt still outstanding that was used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending.

Total assets increased in 2012 by \$7.2 million and total liabilities decreased by \$19.8 million resulting in an increase in total net position of \$27 million, or 2.8%.

Net position representing resources that are subject to external restrictions on how they may be used are 7.3% of the total. The remainder of the net position balance of \$137.6 million (unrestricted net position), represents the amount that may be used to meet the City's ongoing obligations.

At December 31, 2012, the City of Vancouver reports positive balances in all three categories of net position, for the government as a whole.

Analysis of Changes in Net Position

The change in net position increase in 2012 of \$27 million is split between governmental increase of \$18.9 million and business-type activities increase of \$8 million. A condensed version of the Statement of Activities for the past two years is shown in the following table. The full statement is a tabular depiction of the relationship of revenues and expenses for the City's governmental activities and proprietary funds. The graphs that follow illustrate the sources of revenue and the balance of governmental vs. business type expenses for 2012.

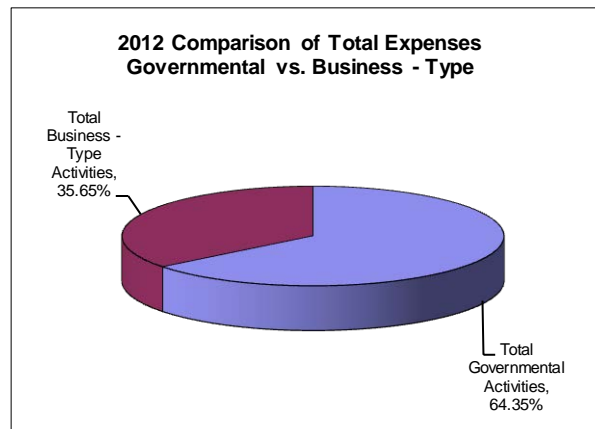
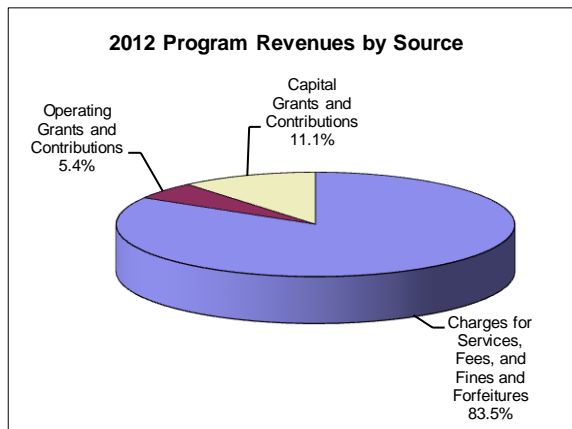
The increase in net position is primarily due to decrease in bonded debt. The City of Vancouver's total bonded debt decreased by \$43 million offset by new additions of \$25.5 million during 2012, the result of scheduled principal payments made throughout 2012 and the City refinanced two bond issues due to the low interest rate environment. During the year the City issued \$15.9 million and \$9.5million in LTGO Refunding bonds, saving \$933,000 and \$1.9 million respectfully in future debt service savings. Capital asset growth net of related debt totaled \$11.7 million, restricted net position decrease of \$8 million; unrestricted net position increase of \$23.1 million to equal \$27.0 million total increase in government's net position.

Governmental activities revenue decreased by 0.2% while governmental expenses increased by 1.5%. The major decrease in governmental activities revenue from Capital Grant and Contribution by 33.2% due to reduction in capital funding and in new projects; decrease in Utility and Other Taxes revenue by 4.3% mainly due to onetime payment of natural gas taxes in 2011. This decrease in revenue was offset by an increase from Charges for Services, Fees, and Fines and Forfeitures by 3.3% mainly due to program revenue consolidation.

The Business-Type Activity revenue increased by 4.4% while expenses increased by 1.2%. The major increase in Business-Type Activity revenue was from Charges for Services, Fees, and Fines and Forfeitures by 3.6% and Capital Grants and Contribution by 24.2%. Changes for Charges for Services and Fee are due to a water rate increase of 5%, 4.2% increase in water pumped, sewer rate increase of 6.5%, and increased in business activities for one of the city's largest industrial customers. Changes in Capital Grant and Contribution mainly due to State Grants from Department of Ecology and significant increase in amount of private development contributions received resulting from the increasing development activity in the City.

City of Vancouver
Summary of Changes in Net Position
Comparative 2011-2012

Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
Program revenues:	2011	2012	2011	2012	2011	2012
Charges for Services, Fees, and Fines and Forfeitures	\$ 37,113,193	\$ 38,331,011	\$ 80,969,889	\$ 83,893,237	\$ 118,083,082	\$ 122,224,248
Operating Grants and Contributions	6,941,995	7,418,742	624,583	442,482	7,566,578	7,861,224
Capital Grants and Contributions	14,175,444	9,474,400	5,425,419	6,736,733	19,600,863	16,211,133
General Revenues						-
Taxes:						-
Property Taxes Levied for General Purposes	40,145,943	40,685,824	-	-	40,145,943	40,685,824
Sales and Use Taxes	24,700,968	26,735,128	-	-	24,700,968	26,735,128
Utility and Other Taxes	47,450,677	45,394,633	-	-	47,450,677	45,394,633
Intergovernmental Revenues not Restricted to Specific Programs	-	-	-	-	-	-
Unrestricted Investment Earnings	1,096,185	799,449	669,651	516,036	1,765,836	1,315,485
Miscellaneous	2,471	2,409,636	46,173	51,440	48,644	2,461,076
Total Revenues	171,626,876	171,248,823	87,735,715	91,639,928	259,362,591	262,888,751
Program Expenses						
Governmental Activities:						
General Government	30,035,434	29,380,303	-	-	30,035,434	29,380,303
Judicial	1,750,281	1,588,106	-	-	1,750,281	1,588,106
Security/Persons & Property	63,405,526	66,136,402	-	-	63,405,526	66,136,402
Physical Environment	315,426	474,343	-	-	315,426	474,343
Transportation	26,830,253	29,712,758	-	-	26,830,253	29,712,758
Health and Human Services	264,823	385,797	-	-	264,823	385,797
Economic Environment	9,201,330	8,388,707	-	-	9,201,330	8,388,707
Culture and Recreation	12,772,816	10,924,436	-	-	12,772,816	10,924,436
Interest on Long-Term Debt	4,932,951	4,746,812	-	-	4,932,951	4,746,812
Business-Type Activities:						
Water Sewer	-	-	71,882,823	73,305,642	71,882,823	73,305,642
Parking	-	-	3,637,263	3,372,113	3,637,263	3,372,113
Airpark	-	-	702,277	696,973	702,277	696,973
Building Inspection	-	-	3,763,539	3,641,964	3,763,539	3,641,964
Sanitation	-	-	2,005,789	1,912,012	2,005,789	1,912,012
Tennis Center	-	-	1,032,844	1,124,302	1,032,844	1,124,302
Fire Shop	-	-	132	-	132	-
Total Expenses	149,508,840	151,737,664	83,024,667	84,053,006	232,533,507	235,790,670
Excess (deficiency) of revenues over expenses	22,118,036	19,511,159	4,711,048	7,586,922	26,829,084	27,098,081
Transfers - Governmental	(2,257,553)	(1,167,108)	-	-	(2,257,553)	(1,167,108)
Transfers - Business-Type	-	-	2,257,553	1,167,108	2,257,553	1,167,108
Change in Net Position	19,860,483	18,344,051	6,968,601	8,754,030	26,829,084	27,098,081
Net Position- Beginning	590,775,405	609,779,542	361,989,200	368,781,147	952,764,605	978,560,689
Prior year adjustments	(856,346)	571,003	(176,654)	(762,902)	(1,033,000)	(191,899)
Net Position - Ending	<u>\$ 609,779,542</u>	<u>\$ 628,694,596</u>	<u>\$ 368,781,147</u>	<u>\$ 376,772,275</u>	<u>\$ 978,560,689</u>	<u>\$ 1,005,466,871</u>

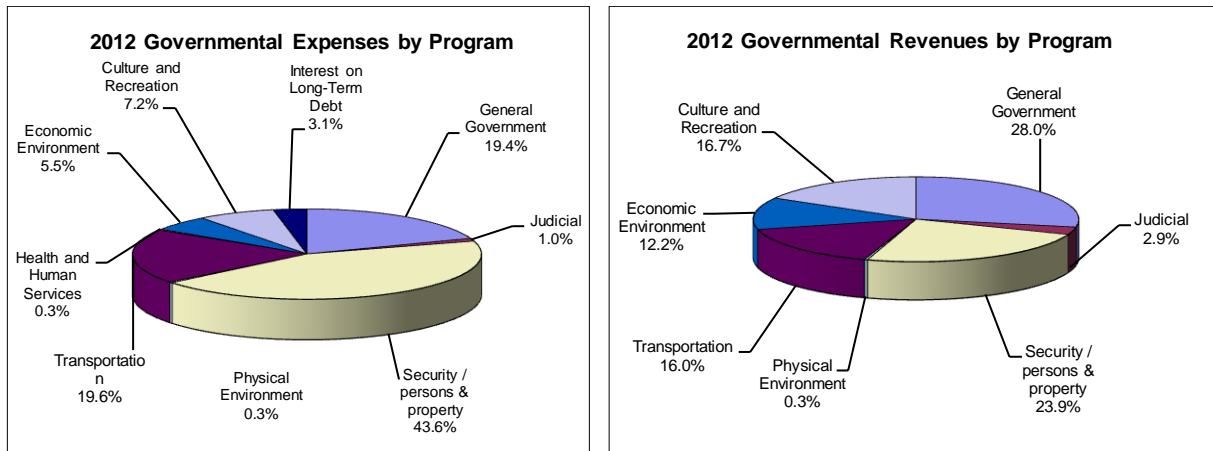


Governmental Activity Analysis

Governmental net position increased by \$18.3 million in 2012 from operations and by \$571,003 from prior year adjustments. This 3.1% increase corresponds to an \$11.1 million increase in total assets with \$7.8 million decrease in total liabilities. During 2012, the City's cash balances increased by \$7.4 million, capital assets increased by \$6.8 million, and receivables and other assets decreased by \$815,479.

Governmental revenues slightly decreased from 2011 by \$378,053 or 0.2% due to moderate decrease in program revenues by \$3.0 million and increase in general revenues by \$2.6 million.

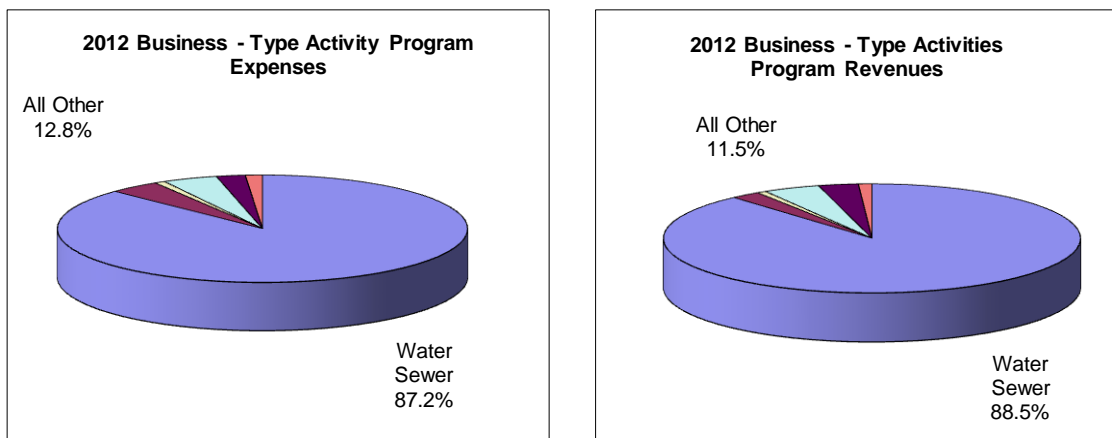
General Government expenses were down by \$655,131, due to various vacant positions. Transportation expenses increase by \$2.9 million from 2011 to 2012, primarily due to higher level of maintenance to transportation infrastructure. Council approved funding pavement management to 100% of policy level to insure existing infrastructures are maintained and constrain future maintenance cost. Security/Persons & Property expenses increased \$2.7 million in several areas, the largest included expenses for Fire Station 6 that was opened full year. Culture and Recreation expenses decrease by 1.8 million due to reduction in recreation staff and consolidation programs. In total, expenses for Governmental activities increased by \$2.2 million

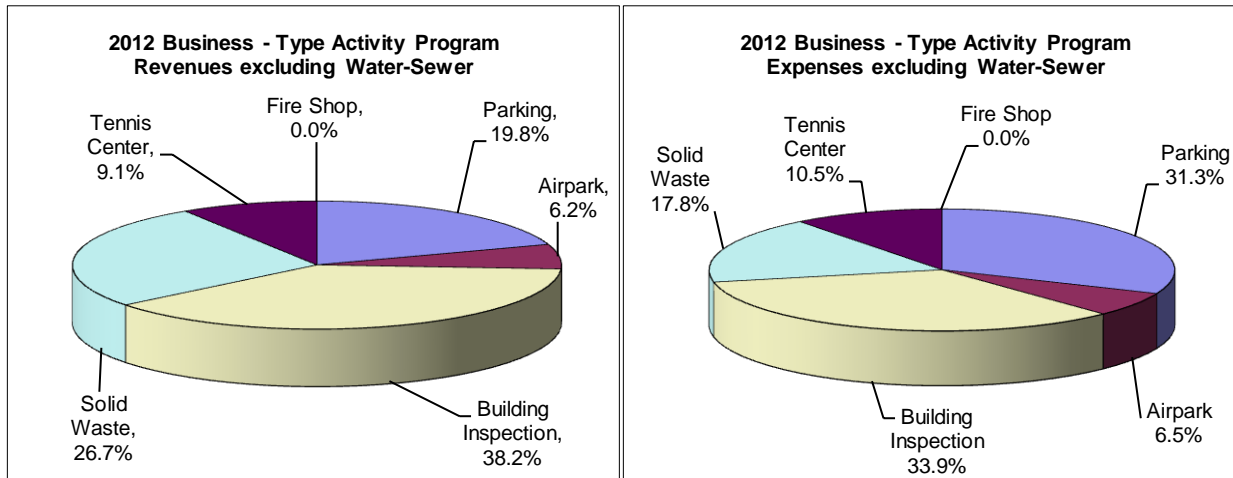


Business-Type Activities Analysis

As depicted in the graphs below, the Water/Sewer activity is the largest business-type activity in the City. As a result, the financial position of the City's business-type activities is strongly influenced by the Water/Sewer activity. This year, Water/Sewer had a \$3.5 million increase in charges for services, a \$1.3 million increase in Capital Grants and Contributions and a \$1.9 million increase in operating expenses.

The other business-type activities had moderate gains and losses. Solid Waste had \$893,239 net operating income due to solid waste and recycling collection rates increase of 1.5%. Parking Activity had \$566,990 net operating loss. The General Fund support of the Parking Fund remained at the \$1.3 million. Building Inspection Activity had \$379,448 net increase, largely led by the multifamily component. On a year over year basis, housing numbers show a significant increase of 30% over the last year's numbers.





FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds Analysis

The City's governmental funds are categorized into four types consisting of General, Special Revenue, Debt Service, and Capital Project Funds. Each fund type has a unique purpose. General Fund, Consolidated Fire Fund, General Obligation Debt Service (GO), and Transportation Capital Fund are classified as major funds for the purposes of this report, based on criteria set forth by the Government Accounting Standards Board (GASB).

The General Fund is the primary governmental fund. General Fund revenues were up 1% over 2011 due primarily to increase in charges for services by \$493,008 and decreased in intergovernmental revenue by \$208,992. Comparing property tax and sales and use tax collections from 2011, 2012 saw an increase of approximately 1.5% and decrease 2.2%, respectively, in these revenue sources due to new construction and delinquency rates. By Council action, there was 1% property tax levy increase for 2012 taxes. The decrease in sales and use taxes is due primarily to a deferred amount from 2009 and 2010 that was received in 2011. Rent and royalties revenues increase due to the collection from tenants of the purchased 415 building. General Fund expenditures accounted for 49.3% of total governmental fund expenditures for 2012. General Fund expenditures decreased by approximately 3%, primarily due decentralization of the transportation function, reduction in culture and recreation program, and economic environment expenditures.

The Consolidated Fire Fund is a special revenue fund that encompasses both the operations and the equipment for the City's and Fire District 5's fire department. Services provided by this fund include not only firefighting, but emergency medical services, rescue, and public safety education. As reported in the Fund Financial Statement of Revenues, Expenditures and Statement of Changes in Fund Balances, major funding for the Consolidated Fire fund is intergovernmental revenues and a transfer from the City's General fund. The Consolidated Fire fund in 2012 accounted for 19.1% of the governmental funds' expenditures, an increase of \$1.9 million from 2011 primarily related to increase in security/persons & property expenditures. In 2012, the Consolidated Fire Fund Balance increased by \$2 million.

The Transportation Capital Fund is a capital projects fund. It was created in 1998 to account for all capital projects in the Transportation Department. The funding for the projects is primarily from grants, bonds, and developer agreements as well as other public and private funding sources. The Transportation Capital Fund in 2012 accounted for 10.6% of the governmental funds' expenditures, a decrease of \$1.6 million from 2011 due to completion two projects Mill Plain Blvd and 18th St Extension in 2011. In 2012, the Transportation Capital fund balance decreased by \$1.9 million due to a large capital outlay for the Waterfront Access Project.

GO Debt Service Fund accounts for the principal and interest on the general obligation bonds of the City of Vancouver. This fund was established to accumulate monies for the payment of general obligation debt of the city. General obligation bonds are those bonds for which the full faith and credit of the city are pledged for payment. During 2012 the City refinanced two bond issues due to the low interest rate environment. GO Debt Service fund in 2012 accounted for 7.9% of the governmental funds' expenditures, an increase of \$843,540 from 2011. During the year the City issued \$15.9 million and \$9.5million in LTGO Refunding bonds, saving \$933,000 and \$1.9 million respectfully in future debt service savings.

All other non-major governmental operating, debt service and capital construction funds comprise the remaining governmental expenditures.

Business-Type Funds Analysis

Proprietary, or business-type, funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users, and the internal service funds provide their services primarily within the City. The City has twelve business-type funds: seven are enterprise funds, and five are internal service funds.

The Water/Sewer Fund is the largest business-type fund in the City, accounting for 94.7% of net position for the enterprise funds at \$356.8 million. Water/Sewer Fund net position increase by \$7.5 million in 2012 mainly due to the increase in utility plant assets and capital contributions and decrease bonded indebtedness. This fund encompasses three legally consolidated utilities: water, sewer, and stormwater operations.

Water/Sewer, the utility, reported operating income of \$3.4 million in 2012, and their operating revenue increased 4.9% primarily due to a water rate increase of 5% implemented January 1, 2012 and 4.2% increases in water pumped, sewer rates also increased by 6.5% in 2012, increased in business activities for the largest city customers, and grant revenue. Utility operating expenses increased by \$1.9 million from 2011, mainly related to increased costs for personnel and professional & contracted services and utility tax expenses. Additionally, depreciation of utility capital assets increased by \$12.7 million and its bonded indebtedness decreased \$11.3 million in 2012.

The Parking Services Fund reported an operating loss of \$566,990 in 2012. Operating expenses decreased by \$240,630 from 2011 due to a decrease in personnel and professional & contracted services and leases. Parking Services changes in net position decreased by \$41,888 from 2011. The General Fund support of the Parking Services Fund remained at the \$1.3 million level in 2012. Over time, the fund is anticipated to become self-supporting.

In the non-major business funds, the Solid Waste and Building Inspection Funds accounted for the majority of the increase in total net position of the non-major business funds. The Solid Waste fund reported \$893,239 in operating income and accounted for \$757,613 of the increase in total net position of the non-major business funds. This increase can be attributed to increasing solid waste and recycling collection rates by 1.5%. The second biggest non-major business fund is the Building Inspection Fund, which reported \$379,448 in operation income and accounted for \$415,673 of the increase in total net position of the non-major business funds. At the national level, housing is recovering at moderate levels, led by starts for multi-family units.

Internal service funds operate like the enterprise funds, but perform services primarily for other funds within the City. Because of the nature of these funds, they are charged with operating as close as possible to a breakeven point. City internal service fund net position increased \$2.7 million from 2011. Operating income of all City Internal Service funds totaled \$1.3 million, an increase of \$2.0 million due to operating income related to the Self-insurance fund as a result of decreased claims expense during 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

Since 2001, the City has addressed an ongoing structural deficit each biennium that is a result of growth in expenditures outpacing growth in revenues. Contributing factors to this deficit include the voters' passage of Initiative 695, which eliminated the motor vehicle excise tax in 2000; Initiative 747, which beginning in 2002 limited increases in property taxes to the lower of 1 percent or the implicit price deflator; the phase out and elimination of the city's Business and Occupation Tax beginning in 1993, and significantly greater City reliance on revenues that fluctuate with the economy.

In light of the permanent downward adjustment in revenues driven by the recession, the City has determined that it would not have the financial capacity to maintain 2010 levels of services in 2011 and beyond. As a result, the 2011-2012 Budget incorporates approximately \$9.1 million in annual budget reductions in the General, Street and Fire Funds. The reductions were achieved largely through employee layoffs, cuts in programs, service levels and employee compensation. This reduction reflects the City's practice of pro-actively constraining on-going expenditures to match the on-going revenues, while maintaining appropriate reserves and fund balances.

The Strategic Commitment of a Safe and Prepared Community remains the city's highest priority in the 2011-2012 Budget. Both Police and Fire departments reflect significantly lower level of reductions proportionate to General Fund resources supporting these areas. Across all city services, their proportionate reduction increased as priority decreased. Citywide, all recommended reductions will result in service level reductions across all areas, ranging from cuts in parks and median maintenance to slower emergency response in certain areas of the City.

The General Fund stayed within budget for the biennium. Revenues were below the forecast for the biennium by \$4.9 million. Of that amount, approximately \$3.7 million relates to the City's delayed spending on several large grants in Police and Community Development Department. Actual expenses were below budget in almost all expenditure functions.

Adjustments for the City's Operating and Capital funds included in the fall 2012 Supplemental Budget have an increase of \$11.3 million on the City's expenditure appropriation. Of that amount, \$11.3 million related to an increase in the operating budget, offset by a \$30,000 increase in capital budget. The total appropriation change in the General, Street, and Fire Funds is \$665,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Vancouver's investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2012, amounts to \$963.8 million (net of accumulated depreciation).

The table on the next page is a comparison of the summary information for year-end 2011 and 2012 capital asset. Balance of 2011 capital assets was restated to Prior Period Adjustments.

	Governmental Activities		Business-Type Activities		Total Activities	
	2011 Restated	2012	2011 Restated	2012	2011 Restated	2012
Land	\$ 60,781,763	\$ 63,847,569	\$ 29,235,379	\$ 30,146,794	\$ 90,017,142	\$ 93,994,363
Intangible - Easements	7,260,900	8,048,566	1,591,679	2,346,345	8,852,579	10,394,911
Buildings and systems	90,769,321	89,376,133	21,528,472	20,087,536	112,297,793	109,463,669
Machinery and equipment	13,689,290	14,054,341	4,446,281	3,668,213	18,135,571	17,722,554
Infrastructure	375,448,458	372,467,320	307,107,280	300,412,037	682,555,738	672,879,357
Intangible assets	42,182	620,366	1,013,767	298,164	1,055,949	918,530
Construction in progress	42,780,833	45,961,147	10,201,981	12,420,418	52,982,814	58,381,565
Total	<u>\$ 590,772,747</u>	<u>\$ 594,375,442</u>	<u>\$ 375,124,838</u>	<u>\$ 369,379,507</u>	<u>\$ 965,897,585</u>	<u>\$ 963,754,949</u>

The major changes for assets were in construction in progress (CIP), land and infrastructure for both Governmental and Business - Type Activities categories. The increase in CIP for Governmental Activities relates to ramp up of various parks, infrastructure projects, and Artillery Barracks.

Additional information on City of Vancouver's capital assets can be found in note IV.B of this report.

Long-Term Debt

At December 31, 2012, the City of Vancouver had total bonded debt outstanding of \$176.7 million. Of this amount, \$114.1 million is General Obligation debt, which is debt backed by the full faith and credit of the government. The remainder of the City's debt of \$61.1 million represents bonds secured solely by specific revenue sources (i.e., revenue bonds). The below table is a comparison of the summary information for year-end 2011 and 2012 bonded debt.

The City of Vancouver's total bonded debt decreased by \$43.0 million offset by new additions of \$25.5 million during 2012, the result of scheduled principal payments made throughout 2012 and the City refinanced two bond issues due to the low interest rate environment. During the year the City issued \$15.9 million and \$9.5million in LTGO Refunding bonds, saving \$933,000 and \$1.9 million respectfully in future debt service savings. The City's remaining capacity for non-voted debt is approximately \$118 million.

City of Vancouver Outstanding Bonded Debt

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total Activities	
	2011	2012	2011	2012	2011	2012
General obligation bonds	\$ 106,903	\$ 100,725	\$ 14,187	\$ 13,375	\$ 121,090	\$ 114,100
Revenue bonds	-	-	71,785	61,140	71,785	61,140
Net of Deferred Amounts for:						
Issuance premiums (discounts)	4,104	3,735	4,064	3,244	8,168	6,979
Refunding	(1,650)	(2,476)	(3,761)	(3,053)	(5,411)	(5,529)
Total	<u>\$ 109,357</u>	<u>\$ 101,984</u>	<u>\$ 86,275</u>	<u>\$ 74,706</u>	<u>\$ 195,632</u>	<u>\$ 176,690</u>

The City of Vancouver maintains an "Aa3"/"AA" rating from Moody's/Standard and Poor's (S & P) rating services, respectively for general obligation debt. Additional information on the City's long-term debt can be found in Note IV.F of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2013-14 biennial budget totals \$752.4 million in operating and capital expenditures, including 963.6 positions. The recommended budget is balanced without the implementation of new taxes or tax increases other than the annual 1% authorized increase to property taxes. Other fees and rates, including utility rates and fees for services are recommended to be adjusted for anticipated inflation as reflected in the forecast.

Unlike the past two biennia, there are no forecast-based budget reductions in 2013-2014. Conversely, there are no new additional FTE's included in the budget that are not accompanied by commensurate new funding. The preliminary forecast for the 2013-2014 Biennium indicates no deficit in the next biennium. The second year of the biennium reflects a projected deficit, but the budget policy direction for 2013-14 is to utilize some of the first year surplus to balance the budget over the biennium and to address the budget deficit during the development of the 2015-16 biennial budget.

In preparation of the 2013-2014 Budget, the City underwent a thorough review and prioritization of all the programs the City provides. Using the six Strategic Commitments detailed in the City's Strategic Plan as the guiding framework, the City of Vancouver embarked on Horizons, a collaborative approach to meeting budget challenges and creating a more efficient organization. The City used a combination of reforms, such as organizational flattening, coupled with major reorganizations and service level reductions in most City services to address the budget shortfall.

The City's management continues its commitment to seeking out and implementing new cost containment and service delivery options that will address aspects of the ongoing structural deficit beyond this biennium. Projections for 2013-2016 show that revenues are anticipated to continue increasing at a slower pace than expenditures, but the projected gap is significantly smaller than the gap addressed during 2009-2012. The City Manager has announced a budgeting initiative called Legacy 2020 that would result in developing a long term solution for the City's ongoing budget challenges. Developing and implementing a balanced six year budget – the City of Vancouver's Legacy 2020 project, will take us from a position of long term financial deficit to long term financial sustainability. Today's new economy has forever changed the face of governments and we must change with the times.

Requests for Information

This financial report is designed to provide a general overview of City of Vancouver's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Financial and Management Services, City of Vancouver, P.O. Box 1995, Vancouver, WA, 98668-1995.

CITY OF VANCOUVER
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total Primary Government	Vancouver Downtown Redevelopment Authority	Vancouver Public Facilities District
ASSETS					
Cash, cash equivalents and pooled investments	\$ 145,941,748	\$ 71,062,801	\$ 217,004,549	\$ 92,661	\$ 115,978
Cash with fiscal/escrow agent	3,512,422	-	3,512,422	9,697,453	-
Restricted assets					
Cash	-	7,743,175	7,743,175	-	-
Accrued interest receivable	-	4,837	4,837	-	-
Receivables (net of allowance for uncollectible accounts)	14,101,958	8,246,735	22,348,693	799,917	368,096
Inventories	515,503	693,211	1,208,714	37,372	-
Capital assets held for resale	5,801,535	512,875	6,314,410	-	-
Prepaid Items	50,000	-	50,000	107,388	-
Internal balances	940,687	(940,687)	-	-	-
Investment in joint venture	2,009,259	-	2,009,259	-	-
Due from other governmental units	3,320,628	350,773	3,671,401	-	-
Net pension asset	5,718,997	-	5,718,997	-	-
Deferred charge	944,021	786,729	1,730,750	4,213,152	-
Capital assets (net of accumulated depreciation)					
Land	63,847,569	30,146,794	93,994,363	-	3,603,691
Easements	8,048,566	2,346,345	10,394,911	-	-
Buildings	89,376,133	20,087,536	109,463,669	42,144,087	-
Machinery and equipment	14,054,341	3,668,213	17,722,554	447,061	-
Infrastructure	372,467,320	300,412,037	672,879,357	-	-
Intangible assets	620,366	298,164	918,530	-	-
Construction work in progress	45,961,147	12,420,418	58,381,565	-	-
Total Assets	<u>777,232,200</u>	<u>457,839,956</u>	<u>1,235,072,156</u>	<u>57,539,091</u>	<u>4,087,765</u>
LIABILITIES					
Accounts payable and other current liabilities	10,432,215	2,841,425	13,273,640	976,442	-
Accrued interest payable	370,853	296,611	667,464	2,619,794	-
Unearned revenue	1,963,336	192,276	2,155,612	74,091	-
Custodial accounts	330,647	402,873	733,520	-	444,568
Environmental remediation	-	21,000	21,000	-	-
Noncurrent liabilities:					
Environmental remediation	-	399,000	399,000	-	-
Special assessment debt with governmental commitments due within one year	3,000	-	3,000	-	-
Special assessment debt with governmental commitments due in more than one year	6,327	-	6,327	-	-
Due within one year	16,413,584	13,715,479	30,129,063	765,464	-
Due in more than one year	119,017,642	63,199,017	182,216,659	72,075,724	-
Total Liabilities	<u>148,537,604</u>	<u>81,067,681</u>	<u>229,605,285</u>	<u>76,511,515</u>	<u>444,568</u>
NET POSITION					
Net investment in capital assets	500,451,612	294,317,397	794,769,009	(19,938,597)	3,603,691
Restricted for:					
Capital purposes	45,252,498	3,733,077	48,985,575	1,091,377	-
Debt service	6,285	4,012,638	4,018,923	-	-
Grant purposes	4,882,162	-	4,882,162	-	-
Security purposes	14,571,036	-	14,571,036	-	-
Economic purposes	597,422	-	597,422	-	-
Parks & Recreation purposes	29,803	-	29,803	-	-
Unrestricted	62,903,778	74,709,163	137,612,941	(125,204)	39,506
Total Net Position	<u>\$ 628,694,596</u>	<u>\$ 376,772,275</u>	<u>\$ 1,005,466,871</u>	<u>\$ (18,972,424)</u>	<u>\$ 3,643,197</u>

CITY OF VANCOUVER
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position				
	Expenses	Indirect Expense Allocation	Charges for Services, Fees, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
						Governmental Activities	Business -type Activities	Total	Vancouver Downtown Redevelopment Authority	Vancouver Public Facilities District
PRIMARY GOVERNMENT										
Governmental Activities:										
General Government	\$									
Judicial	29,380,303	(4,639,311)	10,432,157	131,436	231,010	\$ (13,946,389)	\$	(13,946,389)	\$	-
Security/ persons & property	1,556,398	31,708	1,518,824	87,395	-	18,113	-	18,113	-	-
Physical Environment	65,173,935	962,467	10,161,521	2,970,867	93,537	(52,910,477)	-	(52,910,477)	-	-
Transportation	466,503	7,840	160,792	-	-	(313,551)	-	(313,551)	-	-
Mental and Physical Health	29,162,085	550,673	1,073,343	-	7,670,804	(20,968,611)	-	(20,968,611)	-	-
Economic Environment	385,797	-	-	-	-	(385,797)	-	(385,797)	-	-
Culture and Recreation	8,279,624	109,083	3,111,281	3,047,430	588,241.00	(1,641,755)	-	(1,641,755)	-	-
Interest on Long-Term Debt	10,769,713	154,723	7,233,781	1,181,614	890,808	(1,618,233)	-	(1,618,233)	-	-
	4,746,812	-	-	-	-	(4,746,812)	-	(4,746,812)	-	-
TOTAL GOVERNMENTAL ACTIVITIES	149,921,170	(2,822,817)	33,691,700	7,418,742	9,474,400	(96,513,511)	-	(96,513,511)	-	-
Business Type Activities:										
Water/Sewer	71,411,236	1,894,406	73,409,516	409,620	6,736,733	-	7,250,227	7,250,227	-	-
Parking	2,962,378	409,735	2,082,435	-	-	-	(1,289,678)	(1,289,678)	-	-
Airpark	655,504	41,469	620,778	32,862	-	(43,333)	-	(43,333)	-	-
Building Inspection	3,348,947	293,017	4,021,412	-	-	-	379,448	379,448	-	-
Solid Waste	1,814,442	97,571	2,805,252	-	-	-	893,239	893,239	-	-
Tennis Center	1,037,683	86,619	953,844	-	-	-	(170,458)	(170,458)	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	81,230,190	2,822,817	83,893,237	442,482	6,736,733	-	7,019,445	7,019,445	-	-
Total Primary Government	\$ 231,151,360	\$ -	\$ 117,584,937	\$ 7,861,224	\$ 16,211,133	\$ (96,513,511)	\$ 7,019,445	\$ (89,494,066)	\$ -	\$ -
Component Units										
Downtown Redevelopment Authority	\$ 16,705,569	\$ -	\$ 11,912,316	\$ 2,821,928	\$ -	\$ -	\$ -	\$ -	(1,971,325)	\$ -
Public Facilities District	1,681,009	-	-	1,677,540	-	-	-	-	-	(3,469)
TOTAL COMPONENT UNITS	\$ 18,386,578	\$ -	\$ 11,912,316	\$ 4,499,468	\$ -	\$ -	\$ -	\$ -	(1,971,325)	\$ (3,469)
General Revenues:										
Taxes:										
Property Taxes Levied for General Purposes					\$	40,685,824	\$	40,685,824	\$	-
Sales and Use Taxes						26,735,128	-	26,735,128	-	-
Utility Taxes						35,435,916	-	35,435,916	-	-
Excise, Lodging and Other Taxes						9,958,718	-	9,958,718	-	-
Unrestricted Investment Earnings						799,449	516,036	1,315,485	31,508	179
Miscellaneous						2,409,636	51,440	2,461,076	-	-
Transfers						(1,167,109)	1,167,109	-	-	-
Total General Revenues and Transfers						114,857,562	1,734,585	116,592,147	31,508	179
Change in Net Position										
Net Position - Beginning						18,344,051	8,754,030	27,098,081	(1,939,817)	(3,290)
Prior period adjustments						609,779,542	368,781,147	978,560,689	(16,989,857)	4,074,321
Net Position - Ending						571,003	(762,902)	(191,899)	(42,750)	(427,834)
						628,694,596	\$ 376,772,275	\$ 1,005,466,871	\$ (18,972,424)	\$ 3,643,197

CITY OF VANCOUVER
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	Major Funds				Other Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Consolidated Fire	GO Debt Service	Transportation Capital		
ASSETS						
Cash, cash equivalents and pooled investments	\$ 48,729,732	\$ 14,765,819	\$ 958	\$ 2,121,647	\$ 55,078,473	\$ 120,696,629
Cash with fiscal/escrow agent	-	-	-	3,308,496	203,926	3,512,422
Receivables (net)						
Taxes/assessments	6,032,800	-	-	319	767,067	6,800,186
Accounts	916,090	260,432	-	18,286	605,748	1,800,556
Interest	31,287	9,276	-	1,321	34,608	76,492
Notes	-	-	-	261,250	4,577,210	4,838,460
Due from other funds	406,521	-	475,372	2,071,207	760,676	3,713,776
Interfund loan receivable	338,947	-	-	-	-	338,947
Due from other governmental units	421,618	443,001	-	1,028,660	1,427,349	3,320,628
Capital assets held for resale	228,400	-	-	-	5,529,135	5,757,535
Advances to other funds	685,000	-	-	-	-	685,000
TOTAL ASSETS	\$ 57,790,395	\$ 15,478,528	\$ 476,330	\$ 8,811,186	\$ 68,984,192	\$ 151,540,631
LIABILITIES						
Accounts payable	\$ 2,675,440	\$ 314,714	\$ -	\$ 3,022,241	\$ 826,914	\$ 6,839,309
Due to other funds	564,476	17,974	475,372	10,486	2,275,853	3,344,161
Interfund loan payable	-	-	-	-	338,947	338,947
Accrued interest payable	-	-	-	-	30	30
Accrued liabilities	1,630,345	952,410	-	26,535	148,737	2,758,027
Revenues collected in advance	332,032	-	-	-	109,798	441,830
Custodial accounts	149,550	5,317	-	11	211,182	366,060
Deferred revenues	1,501,794	1,616,560	-	6,264	850,303	3,974,921
Total liabilities	<u>6,853,637</u>	<u>2,906,975</u>	<u>475,372</u>	<u>3,065,537</u>	<u>4,761,764</u>	<u>18,063,285</u>
FUND BALANCES						
Fund balances						
Nonspendable	913,400	-	-	261,250	10,106,345	11,280,995
Restricted	1,064,707	12,571,553	958	3,308,496	43,659,768	60,605,482
Committed	40,276,519	-	-	2,175,903	8,086,282	50,538,704
Assigned	3,893,165	-	-	-	2,370,033	6,263,198
Unassigned	4,788,967	-	-	-	-	4,788,967
Total fund balance	<u>50,936,758</u>	<u>12,571,553</u>	<u>958</u>	<u>5,745,649</u>	<u>64,222,428</u>	<u>133,477,346</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 57,790,395	\$ 15,478,528	\$ 476,330	\$ 8,811,186	\$ 68,984,192	\$ 151,540,631

Amounts reported for governmental activities in the statement of net position are different because (See Note II also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	\$ 588,518,074
Capital Assets Held for Resale used in governmental activities that are not financial resources and therefore are not reported in the funds	44,000
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds, or other long-term assets of the City	11,163,039
Internal service funds are used to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position	27,951,214
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(132,459,077)
Net position of governmental activities	<u>\$ 628,694,596</u>

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year ended December 31, 2012

	Major Funds				Other Non-Major	Total
	General Fund	Consolidated Fire	GO Debt Service	Transportation Capital	Governmental Funds	Governmental Funds
REVENUES						
Property taxes	\$ 40,947,711	\$ -	\$ -	\$ -	\$ -	\$ 40,947,711
Sales and use taxes	26,735,128	-	-	-	-	26,735,128
Other taxes	34,911,965	-	-	78,916	3,910,067	38,900,948
License and permits	899,275	436,603	-	-	2,506,408	3,842,286
Intergovernmental	6,374,695	9,481,101	-	3,811,523	8,129,801	27,797,120
Charges for services	13,208,740	183,603	-	36,956	1,972,810	15,402,109
Fines and forfeits	1,539,961	5,000	-	500	111,445	1,656,906
Investment earnings	337,788	62,735	-	18,884	274,988	694,395
Rents and royalties	1,352,038	54,194	-	4,500	603,304	2,014,036
Contributions/donations	172,803	236,879	-	350,228	285,612	1,045,522
Miscellaneous	1,744,116	2,874	5,323	-	91,354	1,843,667
Total revenues	<u>128,224,220</u>	<u>10,462,989</u>	<u>5,323</u>	<u>4,301,507</u>	<u>17,885,789</u>	<u>160,879,828</u>
EXPENDITURES						
Current						
General government	23,940,429	-	-	-	414,615	24,355,044
Judicial	1,662,015	-	-	-	-	1,662,015
Security/persons & property	35,858,489	28,873,852	-	-	128,623	64,860,964
Physical environment	465,754	-	-	-	8,046	473,800
Transportation	1,378,618	-	-	1,914,269	8,699,636	11,992,523
Economic environment	4,280,736	-	-	-	3,517,662	7,798,398
Mental and physical health	385,797	-	-	-	-	385,797
Culture and recreation	7,525,446	-	-	-	959,894	8,485,340
Capital outlay	156,376	451,215	-	14,318,512	6,512,091	21,438,194
Debt service						
Principal retirement	-	-	7,163,577	-	3,000	7,166,577
Bond issuance cost	-	-	165,629	-	-	165,629
Interest/fiscal charges	-	-	4,736,504	264	895	4,737,663
Total expenditures	<u>75,653,660</u>	<u>29,325,067</u>	<u>12,065,710</u>	<u>16,233,045</u>	<u>20,244,462</u>	<u>153,521,944</u>
Excess (deficiency) of revenues over (under) expenditures	52,570,560	(18,862,078)	(12,060,387)	(11,931,538)	(2,358,673)	7,357,884
OTHER FINANCING SOURCES (USES)						
Capital related debt issued	-	-	-	6,000	-	6,000
Sale of capital assets	89,299	228,247	-	-	2,951	320,497
Refunding bond issued	-	-	18,114,676	-	-	18,114,676
Payment to refunded bond escrow account	-	-	(18,563,912)	-	-	(18,563,912)
Premium on debt issued	-	-	614,865	-	-	614,865
Transfers in	324,834	21,726,637	11,895,716	11,559,489	11,219,086	56,725,762
Transfers out	(40,020,520)	(1,370,511)	-	(26,742)	(16,475,098)	(57,892,871)
Total other financing sources and uses	<u>(39,606,387)</u>	<u>20,584,373</u>	<u>12,061,345</u>	<u>11,538,747</u>	<u>(5,253,061)</u>	<u>(674,983)</u>
Net change in fund balances	12,964,173	1,722,295	958	(392,791)	(7,611,734)	6,682,901
FUND BALANCES - BEGINNING	36,862,005	10,610,287	-	7,637,438	71,545,531	126,655,261
Prior period adjustments	1,110,580	238,971	-	(1,498,998)	288,631	139,184
FUND BALANCES - ENDING	<u>\$ 50,936,758</u>	<u>\$ 12,571,553</u>	<u>\$ 958</u>	<u>\$ 5,745,649</u>	<u>\$ 64,222,428</u>	<u>\$ 133,477,346</u>

CITY OF VANCOUVER**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**For the Year Ended December 31, 2012

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

Net changes in fund balances - total governmental funds:	\$	6,682,901
 Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		(2,361,099)
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) not reported in governmental funds.		5,254,624
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(891,482)
 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		7,011,713
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(4,093)
 Internal service funds are used by management to charge the costs of equipment, insurance and printing to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		2,651,487
 Change in Net Position of Governmental Activities	\$	<u><u>18,344,051</u></u>

CITY OF VANCOUVER**GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**

For the Year Ended December 31, 2012

	Budget Amounts		Actual	
	Original	Final	Biennium	
	2011-2012	2011-2012	To- Date	Variance
	Biennium	Biennium	Thru 12/31/12	Thru 12/31/12
REVENUES				
Property tax	\$ 80,770,694	\$ 80,770,694	\$ 81,281,739	\$ (511,045)
Sales and use taxes	50,924,487	52,819,059	54,063,694	(1,244,635)
Other taxes	73,410,004	72,744,156	69,433,038	3,311,118
License and permits	1,872,961	1,952,461	1,750,196	202,265
Intergovernmental	13,204,799	16,698,623	12,958,382	3,740,241
Charges for services	27,497,937	26,396,457	25,924,472	471,985
Fines and forfeitures	2,922,548	3,100,548	3,034,329	66,219
Investment earnings	950,000	950,000	721,894	228,106
Rents and royalties	2,401,724	2,667,459	2,591,415	76,044
Contributions/donations	10,000	88,000	401,945	(313,945)
Miscellaneous	1,280,000	1,889,678	2,971,974	(1,082,296)
Total revenues	255,245,154	260,077,135	255,133,078	4,944,057
EXPENDITURES				
Current:				
General government	55,623,458	56,731,604	48,075,265	8,656,339
Judicial	4,369,453	4,449,453	3,404,815	1,044,638
Security/persons & property	77,154,159	78,232,064	71,797,579	6,434,485
Physical environment	1,272,292	1,257,292	761,025	496,267
Transportation	2,185,587	4,067,108	3,083,302	983,806
Economic environment	10,999,853	10,012,611	9,523,514	489,097
Mental and physical health	751,485	751,485	650,620	100,865
Culture and recreation	18,477,574	17,374,351	16,378,308	996,043
Capital outlay	3,333	679,419	195,690	483,729
Total expenditures	170,837,194	173,555,387	153,870,118	19,685,269
Excess (deficiency) of revenues over expenditures	84,407,960	86,521,748	101,262,960	(14,741,212)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	103,738	(103,738)
Transfers in	1,046,046	977,380	736,476	240,904
Transfers out	(85,912,843)	(89,322,163)	(85,919,119)	(3,403,044)
Total other financing sources (uses)	(84,866,797)	(88,344,783)	(85,078,905)	(3,265,878)
Net change in fund balance	(458,837)	(1,823,035)	16,184,055	(18,007,090)
FUND BALANCES AT BEGINNING OF BIENNIUM	33,413,723	33,413,723	33,413,723	-
Prior period adjustments	-	-	1,338,980	(1,338,980)
FUND BALANCES AT END OF BIENNIUM	\$ 32,954,886	\$ 31,590,688	\$ 50,936,758	\$ (19,346,070)

CITY OF VANCOUVER**CONSOLIDATED FIRE FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**

For the Year Ended December 31, 2012

	Budget Amounts		Actual Biennium To- Date Thru 12/31/12	Variance Thru 12/31/12
	Original 2011-2012 Biennium	Final 2011-2012 Biennium		
REVENUES				
License and permits	\$ 852,176	\$ 852,176	\$ 902,943	\$ (50,767)
Intergovernmental	15,333,260	18,489,154	18,065,066	424,088
Charges for services	381,000	395,000	287,143	107,857
Fines and forfeitures	-	-	5,500	(5,500)
Investment earnings	280,000	280,000	144,165	135,835
Rents and royalties	114,755	114,755	108,388	6,367
Contributions/donations	-	-	236,879	(236,879)
Miscellaneous	-	-	3,300	(3,300)
Total revenues	16,961,191	20,131,085	19,753,384	377,701
EXPENDITURES	-	-		
Current:				
Security/persons & property	56,579,577	59,260,913	55,104,804	4,156,109
Capital outlay	2,824,000	2,824,000	1,689,672	1,134,328
Total expenditures	59,403,577	62,084,913	56,794,476	5,290,437
Excess (deficiency) of revenues over expenditures	(42,442,386)	(41,953,828)	(37,041,092)	(4,912,736)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	180,000	229,974	(49,974)
Transfers in	50,126,089	50,431,058	43,643,961	6,787,097
Transfers out	(6,466,314)	(6,474,110)	(3,175,295)	(3,298,815)
Total other financing sources (uses)	43,659,775	44,136,948	40,698,640	3,438,308
Net change in fund balance	1,217,389	2,183,120	3,657,548	(1,474,428)
FUND BALANCES AT BEGINNING OF BIENNIUM	8,675,034	8,675,034	8,675,034	-
FUND BALANCES AT END OF BIENNIUM	\$ 9,892,423	\$ 10,858,154	\$ 12,571,553	\$ (1,713,399)

CITY OF VANCOUVER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	Business-Type Activities - Enterprise Funds				(Governmental Activities) Internal Service Funds
	Major Fund		Other Non- Major Enterprise Funds	Total	
	Water/Sewer	Parking Services			
ASSETS					
Current assets					
Cash, cash equivalents and pooled investments	\$ 54,820,291	\$ 699,571	\$ 15,542,939	\$ 71,062,801	\$ 25,245,119
Restricted cash, cash equivalents and investments:					
Cash and cash equivalents	7,743,175	-	-	7,743,175	-
Accrued interest receivable	4,837	-	-	4,837	-
Receivables (net)					
Accounts	4,303,450	219,907	35,720	4,559,077	570,440
Interest	34,391	436	9,737	44,564	15,824
Notes	9,327	-	-	9,327	-
Due from other funds	23,126	50	2,296	25,472	14,963
Due from other governmental units	339,776	-	10,997	350,773	-
Inventory	693,211	-	-	693,211	515,503
Capital assets held for resale	512,875	-	-	512,875	-
Prepaid expenses	-	-	-	-	50,000
Total current assets	68,484,459	919,964	15,601,689	85,006,112	26,411,849
Noncurrent assets					
Contracts receivable	3,633,767	-	-	3,633,767	-
Deferred charge	635,153	130,583	20,993	786,729	-
Capital assets					
Land and improvements	28,829,935	832,657	484,202	30,146,794	-
Intangible - Easements	2,346,345	-	-	2,346,345	-
Construction in progress	11,699,276	-	721,142	12,420,418	66,871
Other improvements	500,880,888	49,165	1,973,862	502,903,915	-
Buildings	9,141,661	19,003,673	10,872,270	39,017,604	-
Intangible assets	8,341,534	128,712	705,027	9,175,273	-
Machinery and equipment	23,276,386	655,216	889,251	24,820,853	26,848,014
Accumulated depreciation	(233,579,051)	(10,602,243)	(7,270,401)	(251,451,695)	(21,057,517)
Capital assets net of accumulated depreciation	350,936,974	10,067,180	8,375,353	369,379,507	5,857,368
Total noncurrent assets	355,205,894	10,197,763	8,396,346	373,800,003	5,857,368
TOTAL ASSETS	423,690,353	11,117,727	23,998,035	458,806,115	32,269,217
LIABILITIES					
Current liabilities					
Accounts payable	1,767,119	29,712	223,338	2,020,169	626,823
Claims and judgments payable	-	-	-	-	1,096,912
Environmental remediation	21,000	-	-	21,000	-
Due to other funds	15,744	9,873	255,542	281,159	128,891
Due to other governmental units	-	1,873	-	1,873	-
Accrued interest payable	255,944	34,105	6,562	296,611	-
Accrued liabilities	1,954,172	37,802	309,318	2,301,292	503,103
Custodial accounts	317,653	11,589	73,631	402,873	1,934
Unearned revenues	28,576	8,279	155,421	192,276	-
Bonds, notes and loans payable	11,150,000	710,000	318,530	12,178,530	-
Total current liabilities	15,510,208	843,233	1,342,342	17,695,783	2,357,663
Noncurrent liabilities					
Due to other governmental units	356,033	-	-	356,033	-
Advances from other funds	-	685,000	-	685,000	-
Bonds, notes and loan payable	50,315,806	10,950,190	1,261,551	62,527,547	-
Claims and judgments	-	-	-	-	1,886,578
Environmental remediation	399,000	-	-	399,000	-
Accrued employee benefits	321,216	3,633	45,628	370,477	73,762
Total noncurrent liabilities	51,392,055	11,638,823	1,307,179	64,338,057	1,960,340
TOTAL LIABILITIES	66,902,263	12,482,056	2,649,521	82,033,840	4,318,003
NET POSITION					
Net investment in capital assets	289,115,135	(1,593,010)	6,795,272	294,317,397	5,857,368
Restricted for capital purposes	3,733,077	-	-	3,733,077	120,000
Restricted for Debt	4,012,638	-	-	4,012,638	-
Unrestricted	59,927,240	228,681	14,553,242	74,709,163	21,973,846
TOTAL NET POSITION	\$ 356,788,090	\$ (1,364,329)	\$ 21,348,514	\$ 376,772,275	\$ 27,951,214

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other Non-Major Enterprise Funds	Total	Internal Service Funds
	Water/Sewer	Parking Services			
OPERATING REVENUES					
Intergovernmental	\$ 264,617	\$ 6,939	\$ -	\$ 271,556	\$ 56,229
Charges for services	71,692,971	26,665	7,571,491	79,291,127	24,220,333
Fines and forfeitures	518,712	528,724	79,920	1,127,356	-
Rents and royalties	525,858	1,511,023	619,827	2,656,708	-
Miscellaneous	407,358	9,084	130,048	546,490	2,510,838
Total operating revenues	<u>73,409,516</u>	<u>2,082,435</u>	<u>8,401,286</u>	<u>83,893,237</u>	<u>26,787,400</u>
OPERATING EXPENSES					
Personnel services	16,742,500	603,296	3,179,993	20,525,789	3,390,505
Supplies and contractual services	16,885,819	528,619	2,081,065	19,495,503	18,897,128
Interfund services	7,534,885	567,598	1,492,728	9,595,211	980,721
Intergovernmental payments	16,114,118	18,993	68,749	16,201,860	255,049
Depreciation	12,707,302	930,919	466,369	14,104,590	2,008,829
Total operating expenses	<u>69,984,624</u>	<u>2,649,425</u>	<u>7,288,904</u>	<u>79,922,953</u>	<u>25,532,232</u>
Operating income (loss)	3,424,892	(566,990)	1,112,382	3,970,284	1,255,168
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	448,259	2,250	65,527	516,036	105,055
State and federal grants	409,620	-	32,862	442,482	-
Interest and fiscal charges	(3,321,018)	(722,688)	(86,348)	(4,130,054)	-
Gain (Loss) on disposal of capital assets	-	-	-	-	418,723
Miscellaneous revenue (expense)	9,518	-	41,922	51,440	400,118
Total nonoperating revenues (expenses)	<u>(2,453,621)</u>	<u>(720,438)</u>	<u>53,963</u>	<u>(3,120,096)</u>	<u>923,896</u>
Income (loss) before contributions and transfers	971,271	(1,287,428)	1,166,345	850,188	2,179,064
Capital contributions	6,736,733	-	-	6,736,733	472,423
Transfers in	1,063,794	1,245,540	174,793	2,484,127	-
Transfers out	(486,364)	-	(830,654)	(1,317,018)	-
Change in net position	<u>8,285,434</u>	<u>(41,888)</u>	<u>510,484</u>	<u>8,754,030</u>	<u>2,651,487</u>
TOTAL NET POSITION - BEGINNING	349,294,691	(1,322,441)	20,808,897	368,781,147	25,300,647
Prior period adjustments	(792,035)	-	29,133	(762,902)	(920)
TOTAL NET POSITION - ENDING	<u>\$ 356,788,090</u>	<u>\$ (1,364,329)</u>	<u>\$ 21,348,514</u>	<u>\$ 376,772,275</u>	<u>\$ 27,951,214</u>

CITY OF VANCOUVER

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended December 31, 2012

Page 1 of 2

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other		
	Water/Sewer	Parking Services	Non-Major Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 72,974,800	\$ 2,052,283	\$ 8,472,089	\$ 83,499,172	\$ 26,826,866
Cash received from other operating activities	407,435	9,084	130,083	546,602	587,769
Cash payments for goods and services	(33,653,363)	(558,986)	(2,175,638)	(36,387,987)	(21,408,866)
Internal activity - between funds	(7,536,303)	(557,770)	(2,303,231)	(10,397,304)	(880,120)
Cash payments to employees	(16,731,997)	(605,173)	(3,164,586)	(20,501,756)	(3,354,214)
Net cash provided by operating activities	15,460,572	339,438	958,717	16,758,727	1,771,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Principal paid on debt	-	(115,000)	-	(115,000)	-
Unrestricted gifts received	9,518	-	41,922	51,440	-
Receipt of grant funds	91,871	-	85,861	177,732	-
Payments to other governments	-	(61)	-	(61)	-
Transfers from other funds	872,273	1,245,540	174,793	2,292,606	5,976
Transfers to other funds	(486,364)	-	(830,655)	(1,317,019)	-
Net cash provided by noncapital financing activities	487,298	1,130,479	(528,079)	1,089,698	5,976
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Increase in receivables	118,997	-	-	118,997	-
Principal paid on capital debt	(10,729,372)	(510,305)	(314,000)	(11,553,677)	-
Interest paid on capital debt	(3,356,152)	(741,770)	(85,432)	(4,183,354)	-
Purchase of capital assets	(5,583,119)	-	(378,063)	(5,961,182)	(2,106,305)
Proceeds from sale of capital assets	-	-	-	-	255,445
Proceeds from capital debt	-	4,343	-	4,343	-
Payment of debt issuance costs	-	(13,698)	-	(13,698)	-
Capital contributions	3,595,204	-	-	3,595,204	25,095
Net cash used by capital and related financing activities	(15,954,443)	(1,261,430)	(777,495)	(17,993,367)	(1,825,765)
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipt of investment earnings	443,582	2,086	64,583	510,251	103,243
Receipt (payment) of notes receivable or interfund loan	134,211	-	2,865	137,076	-
Issuance of notes receivable or interfund loan	(126,961)	-	-	(126,961)	-
Loans made to others	3,000	-	-	3,000	-
Net cash provided by investing activities	453,832	2,086	67,448	523,366	103,243
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	447,259	210,573	(279,409)	378,423	54,889
CASH AND CASH EQUIVALENTS - BEGINNING					
	62,116,207	488,998	15,822,348	78,427,553	25,190,230
CASH AND CASH EQUIVALENTS - ENDING	\$ 62,563,466	\$ 699,571	\$ 15,542,939	\$ 78,805,976	\$ 25,245,119

CITY OF VANCOUVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

Page 2 of 2

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other Non-Major Enterprise Funds	Total	Internal Service Funds
	Water/Sewer	Parking Services			
Reconciliation of operating income (loss) to net cash used by operating activities:					
Net operating income (loss)	\$ 3,424,892	\$ (566,990)	\$ 1,112,382	\$ 3,970,284	\$ 1,255,168
Adjustments to reconcile net operating income (loss) to net cash provided by operations:					
Depreciation expense	12,707,302	930,919	466,369	14,104,590	2,008,829
(Increase) Decrease in receivables	(52,984)	(29,347)	45,141	(37,190)	37,962
Increase (Decrease) in deposits	25,703	-	138,430	164,133	-
(Increase) Decrease in inventories	60,402	-	-	60,402	(9,031)
Increase (Decrease) in current payables	(713,828)	(11,374)	(12,149)	(737,351)	(152,798)
Increase (Decrease) in accrued liabilities	9,085	(1,877)	14,453	21,661	70,831
(Increase) Decrease in receivables from other funds	-	(45)	(2,074)	(2,119)	(14,958)
Increase (Decrease) in payables due to other funds	-	9,873	(820,826)	(810,953)	73,491
Increase (Decrease) in claims and judgments payable	-	-	-	-	(2,085,828)
Increase (Decrease) revenue collected in advance	-	8,279	16,991	25,270	-
Receipt of non-operating revenues	-	-	-	-	587,769
Total adjustments	12,035,680	906,428	(153,665)	12,788,443	516,267
Net cash provided by operating activities	\$ 15,460,572	\$ 339,438	\$ 958,717	\$ 16,758,727	\$ 1,771,435
Noncash investing, financing and capital activities					
Capital assets donated	\$ 3,141,529	\$ -	\$ -	\$ 3,141,529	\$ 447,328
Net change in fair value of investments	\$ (6,489)	\$ (72)	\$ (2,039)	\$ (8,600)	\$ (2,618)

CITY OF VANCOUVER
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	Pension Trust Funds	Agency Funds
ASSETS		
Cash, cash equivalents and pooled investments	\$ 6,597,667	\$ 767,187
Investments: (at fair value)		
Federal Agency Coupon Securities	1,526,619	-
Receivables:		
Accounts	-	310,196
Interest	19,766	479
Prepaid expenses	58,334	-
Property, plant, and equipment (net)	-	430,771
TOTAL ASSETS	8,202,386	1,508,633
LIABILITIES		
Accounts and accrued employee payables	1,691	121,875
Custodial accounts	-	2,969
Due to other governmental units	-	1,383,789
TOTAL LIABILITIES	1,691	1,508,633
NET POSITION		
Held in trust for Pension and OPEB Benefits	\$ <u>8,200,695</u>	\$ <u>-</u>

CITY OF VANCOUVER
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Fiduciary Funds
For The Year Ended December 31, 2012

	Pension Trust Funds
Additions:	
Employer Contributions	
For pension benefits	\$ 1,152,980
For postemployment healthcare benefits	1,683,020
Other Sources	<u>159,223</u>
Total Contributions	<u>2,995,223</u>
Investment Income	
Interest earnings	<u>37,857</u>
Total Investment Income	<u>37,857</u>
Total Additions	3,033,080
Deductions:	
Pension benefits	820,252
Healthcare premium subsidies	1,683,020
Administrative expense	<u>72,228</u>
Total Deductions	<u>2,575,500</u>
Change in fiduciary net position	457,580
Net position - beginning	<u>7,743,115</u>
Net position - ending	<u><u>\$ 8,200,695</u></u>

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Vancouver (the City) conform to generally accepted accounting principles as applied to City governments. The following is a summary of the more significant policies:

A. REPORTING ENTITY

The City of Vancouver was incorporated January 23, 1857. The City operates under a Council-Manager form of government and provides services per its charter adopted February 10, 1952, as last amended November 3, 2009.

The Comprehensive Annual Financial Report of the City of Vancouver includes the primary government and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

Discretely Presented Component Units:

The Vancouver Public Facilities District (PFD) is a special purpose government established to participate in the development of the Hotel/Convention Center in downtown Vancouver. The PFD board is comprised of five (5) members appointed by the City Council of Vancouver. The City is able to impose its will on the district; however, PFD's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business-type activity in the City's annual financial report.

The Downtown Redevelopment Authority (DRA) is a special purpose government established in 1997 to plan, design, finance, acquire, construct, equip, own, maintain, operate, repair, remodel, expand, and promote the Vancouver Convention Center and Hotel Project. The DRA Board is composed of seven (7) members who are appointed by the City Council of Vancouver to four year terms. The City is able to impose its will on the authority; however, the DRA's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business-type activity in the City's annual financial report.

On February 27, 2006, the Vancouver City Council passed Ordinance M-3739 creating the City Center Redevelopment Authority (CCRA). CCRA is chartered with facilitating the redevelopment of property thereby promoting economic growth and urban livability within the Vancouver City Center Vision plan area. The CCRA will complement the work of the Downtown Redevelopment Authority (DRA) which is limited by indenture for construction and operation of the Hotel and Convention Center project. The CCRA is an independent legal entity, and its financial activities will be reported as a discretely presented component unit of the City; however, there was no financial information to report for fiscal year ending December 31, 2012.

Unless noted otherwise in this report, the accounting policies of the component units are consistent with those described for the primary government. PFD and DRA issue separate financial statements which can be obtained from the City of Vancouver, Financial and Management Services, PO Box 1995, Vancouver, WA 98668-1995, or electronically by contacting Christine Smith, Accounting Manager, at christine.smith@cityofvancouver.us.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Agency funds only report assets and liabilities, using the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements report the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The *Consolidated Fire Fund* accounts for money received and the expenditures made in providing fire services to the combined City and Fire District 5 service area. The significant resources accounted for in this fund are intergovernmental revenue from Fire District 5, charges for services, licenses and permits and an operating transfer from the City's General Fund

The *Transportation Capital fund* was established to account for all capital projects in the transportation department. The significant resources accounted for in this fund are grants and developer contributions and operating transfers from bond proceeds or other special revenue sources.

The *GO Debt Service fund* was established to accumulate monies for the payment of general obligation debt of the City. The significant resources accounted for in this fund are operating transfers and bond proceeds.

The City reports the following major proprietary funds:

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

The *Parking Services fund* accounts for revenues received from operations of City owned or operated public parking spaces. Expenses are directly related to the operations and maintenance of those facilities.

Additionally, the City reports the following fund types:

Debt service funds account for the accumulation of resources for and payments of general long-term debt principal and interest, except those required to be accounted for in another fund.

Special revenue funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

Capital project funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are from proceeds from general obligation bonds, grants from other agencies and contributions from other funds.

Internal service funds account for services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

The *Trust funds* account for the activities of the Police and Firemen's Pension funds, which accumulate resources for pension benefit payments to qualified public safety employees.

Agency funds represent assets held in a trustee or agency capacity for others and do not report results of operations.

The City now follows the standards set by GASB Statement No.62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

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

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

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

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

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested directly into government securities with interest accruing for the benefit of the specific fund. This policy covers all funds operated by the City. Cash resources required for immediate reasons (within the next month) are invested to the extent possible in short-term investments such as money market/Washington State Local Government Investment Pool (LGIP) accounts with interest accruing to the benefit of each individual fund based on the monthly average cash balance of each fund.

Statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentalities, banker's acceptances, repurchase agreements, and the state treasurer's investment pool. The City is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2012. The Pension Trust Fund is also authorized to invest in corporate bonds rated "A" or better by Standard & Poor's Corporation, or "A" or better by Moody's Bond Ratings. Since the City maintains an internal investment pool, regulatory oversight is performed by the CFO, the Treasurer, and the Treasury accountant. Since the City is a governmental unit, at this point, no other type of regulatory oversight is required.

Investments for the City, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. As of December 31, 2012, the City had \$112,229,188 in the Washington State local investment pool and \$51,518,758 in the Clark County Local Government Investment Pool, which were both classified as cash equivalents. Interest on these investments are prorated to the various funds.

For purposes of the statement of cash flows, the City considers the assets within the state and local government investment pools and all highly liquid investments with a maturity of three months or less to be cash equivalents.

2. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund loan payable" (for the current portion of interfund loans) or "advances to/from other

funds" (for the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund receivable and payables is furnished in Note IV.C.

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

All trade accounts receivable are shown net of an allowance for uncollectible accounts.

The Clark County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually before December 15, and become a lien as of January 1, on property value listed as of the prior May 31. Assessed values are established by the Clark County Assessor at 100 percent of fair market value. A revaluation of all property is required every six years.

Taxes are due in two equal installments on April 30 and October 31. The Clark County Treasurer remits collections monthly to the appropriate district. Property taxes are recorded as a receivable and revenue in the period for which they are levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes receivable is established because delinquent taxes are considered fully collectible and in the event of nonpayment, create a lien against the associated property. Prior year tax levies were recorded using the same principle as discussed previously, and delinquent taxes are evaluated annually. Taxes receivable also contains related interest and penalties. See Note V. E for more discussion.

Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments, related interest, and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

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

3. Inventories and prepaid items

The inventory carried by the Water/Sewer Fund is valued at average cost. A cycle count protocol is used to verify inventory amounts throughout the year and at year end.

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

These accounts contain resources for construction and debt service in enterprise funds. Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they may be maintained in separate bank accounts and their use is limited by applicable bond covenants. The restricted assets of the enterprise funds consists of \$7,743,175 which is cash and investments held for debt service.

The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note IV.F.3.

5. Capital assets

Capital assets are generally considered property, plant, and equipment owned by the City costing \$10,000 or more, and having an estimated useful life of 4 years or more. Additionally, new infrastructure construction (e.g. roads, bridges, sidewalks, etc.) of \$100,000 or more is also reported as capital. Assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if the actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The cost for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are recorded in Construction in Progress as they are constructed, and capitalized upon completion. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Assets are depreciated using the straight line method over the following estimated useful lives:

Asset Category	Useful Life
Buildings	40
Infrastructure Structures	15-40
Leasehold Improvements	20
Utility Improvements	5
Other Improvements	5-60
Rolling Stock	5-30
Information Tech Equipment	5-15
Equipment	4
Software (Intangibles)	5-15
	5

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable column in the statement of net position.

Easements with indefinite lives are considered non-depreciable assets. Other intangible assets with limited useful lives will be depreciated.

6. Compensated absences

City employees can accumulate a certain amount of earned but unused vacation and sick leave benefits. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. The City also reports a liability for sick leave accrual earned by certain employees. See Note IV. F.2, for more information.

7. Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in all statements other than those statements prepared on the modified accrual basis of accounting (the governmental fund statements). Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period as other financing sources or uses. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. See Note IV.F for more detail.

8. Deferred revenues

This includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. See Note IV. D, for more discussion.

9. Use of estimates

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

10. Net position and fund balances

In the financial statements, assets in excess of liabilities are presented in one of two ways depending on the measurement focus of the statement.

On the *Statement of Net Position* for government-wide reporting and for the proprietary funds and on the fiduciary funds' *Statement of Fiduciary Net Position*, net position is segregated into three categories: net investment in capital assets;; restricted net position; and unrestricted net position.

Net investment in capital assets represents total capital assets less accumulated depreciation less debt directly related to capital assets less unspent bond proceeds.

Restricted net position is that component whose use is *not* subject solely to the government's own discretion. Restrictions may be placed on net position by an external third party that provided the resources, by laws or regulations of

CITY OF VANCOUVER

NOTES TO THE BASIC FINANCIAL STATEMENTS

other governments, by enabling legislation, by endowment agreements, or by the nature of the asset. Unspent bond proceeds for capital projects are used in the calculation of restricted net position.

Unrestricted surplus (deficit) net position represents amounts not included in other categories.

On the *Balance Sheet – Governmental Funds*, assets in excess of liabilities are reported as fund balances and are segregated into separate classifications indicating the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent.

Fund balance is reported as **Nonspendable** when the resources cannot be spent because they are either in a nonspendable form or are legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid items.

Fund balance is reported as **Restricted** when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, and then unrestricted resources, as they are needed.

Fund balance is reported as **Committed** for amounts that can be used only for specific purposes as determined by a formal action of the City Council, the City's highest level of decision-making authority. City Council can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken (the adoption of another ordinance or resolution) to remove or revise the limitation.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as **Assigned** fund balance. The City has not established a policy regarding the assignment of funds, so this category of fund balance represents the residual amounts not otherwise reported as non-spendable, restricted, or committed in governmental funds outside of the General Fund. The City Manager, the Chief Financial Officer, and the Deputy Finance Director are the decision making authorities over the assigned category of fund balance. This authority is provided for in the Vancouver Municipal Code (VMC).

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that is not otherwise reported as non-spendable, restricted, or committed within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

When expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, the City intends to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts. See more detail in Note IV.G.

E. ADOPTION OF NEW GASB PRONOUNCEMENTS

For the fiscal year ended December 31, 2012, the City implemented the following GASB Pronouncements

GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

Issued December 2009, the objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The City does not participate as or in an agent employer or an agent multiple-employer OPEB plan, therefore no changes were required.

Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements

Issued November 2010, the objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement establish recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The City does not participate in any SCAs, therefore no changes were required.

Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Issued December 2010, the objective of this Statement is to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments, so they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place,

determine which Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. There is no material impact to the City for implementing the standard.

Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Issued June 2011, the objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. There is no material impact to the City for implementing the standard.

Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

Issued June 2011, the objective of this Statement is to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or a swap counterparty's credit support provider is replaced. The City is involved in no hedging activities, so no changes were required.

F. FUTURE ADOPTION OF GASB PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at December 31, 2012:

- GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
- GASB Statement No. 65 Items Previously Reported as Assets and Liabilities
- GASB Statement No. 66 Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62
- GASB Statement No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25
- GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27
- GASB Statement No. 69 Government Combinations and Disposals of Government Operations
- GASB Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees

The City of Vancouver will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The City has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the City or in issuing its financial statements.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes reconciliation between *fund balances—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds Payable	\$	100,725,480
Less: Deferred charge on refunding (to be amortized as interest expense)		(2,476,617)
Less: Issuance discount (to be amortized as interest expense)		(19,408)
Plus: Issuance premium (to be amortized as interest income)		3,754,513
Accrued interest payable		370,823
Government loans		5,553,588
Special assessment debt		9,327
Net OPEB obligation		4,817,425
Compensated absences for non-Internal Service Funds		7,786,329
Impact fee credits		<u>11,937,617</u>
Net adjustment to reduce fund balance-total government funds to arrive at net position-governmental activities	\$	<u><u>132,459,077</u></u>

Another element of that reconciliation explains that “other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds, or other long-term assets of the City.” The details of this difference are as follows:

Deferred charges, debt issuance costs	\$	944,021
Earned but unavailable revenues		2,490,762
Investments in joint ventures		2,009,259
Net pension asset		<u>5,718,997</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	\$	<u><u>11,163,039</u></u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$	17,262,265
Depreciation expense		<u>(19,623,364)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$	<u><u>(2,361,099)</u></u>

Another element of that reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this difference are as follows:

Earned Taxes	\$ (258,724)
Earned Special Assessments	(3,163)
Earned Revenue considered unavailable at fund level	713,026
Miscellaneous Revenues related to Joint Venture	644,474
Contributions related to Impact Fee Credits	<u>(1,987,095)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(891,482)</u>

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred	\$ (18,126,000)
Premium (discounts)	(614,865)
Debt issue costs	113,152
Deferred portion of refunding	1,163,196
Principal repayments:	
General obligation debt	24,297,106
Governmental loans	116,471
Special assessment debt	3,000
Retirement of premium	354,886
Retirement of debt issuance	<u>(295,233)</u>
Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net position of governmental activities	\$ <u>7,011,713</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details are as follows:

Compensated absences	\$ (96,203)
Pension and OPEB cost	(171,470)
Accrued interest	(9,149)
Amortization of issuance costs/deferred amount on refunding	(356,505)
Amortization of bond discounts/premiums	<u>629,234</u>
Net adjustment to increase <i>net changes in fund balances—total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(4,093)</u>

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City prepares a biennial budget for all funds in accordance with the Municipal Code 35.33 of the Revised Code of Washington (RCW) that is on a basis consistent with accounting principles generally accepted in the United States of America. All funds except custodial agency funds are budgeted to the fund level. Biennially appropriated budgets are adopted for all funds and lapse at the end of each biennium. However, some of the Special Revenue and Capital funds may carry forward budgeted amounts beyond the biennium for completion of certain projects.

Budgets are adopted at the level of the fund, except in the general fund, where expenditures may not exceed appropriations at the function level and the budgets constitute the legal authority for expenditures at that level.

Budget amounts shown in the basic financial statements include the original budget amounts and all appropriation transfers and adjustments approved by the City Manager or City Council, as required. The City Manager or his designee is authorized as the chief executive officer to approve intra-fund budget transfers from one department to another or between line items of the same department. Only the City Council has the authority to increase a given fund's biennial budget. This is executed by City ordinance.

Year 2012 is the last year of the 2011-2012 Biennium.

Amending the budget increases to total budget expenditures of the City that affect the number of authorized employee positions or salary ranges must be approved by City Council. When it is determined that it is in the best interest of the City to increase the appropriation for a particular fund or department within general fund, it may do so by resolution approved by one more than the majority after holding public hearings.

The calendar below outlines the general time frame followed to prepare, review and adopt 2011-2012 Biennial Budget.

January-March 2010

- Completed a Community Survey – a statistically valid random sample survey of residents.

April-June 2010

- Prepared the preliminary revenue and expenditure forecast for 2011-2016.
- Identified the direction of the budget process and outlined specific guidelines for departmental submission.
- The budget direction anticipated the need to take further budget reductions.
- Utilized a variation of the Budgeting by Priorities approach to prioritize all city programs.
- Utilized a large scale community involvement program to provide an educational opportunity and to solicit input on prioritization of City services and City's Strategic Commitments.
- Utilized community input in preparation of the budget reduction proposals city-wide. The 2011-2012 budgeting process utilized a collaborative process that took into account program prioritization city-wide and focused on service level reductions in lower priority programs.

July-September 2010

- Reviewed the departmental proposals and prepared budget recommendations for the City Manager.
- Held televised workshops with City Council to review:
 - The budget process and provided a budget reductions overview.
 - The 2011-2016 revenue and expenditure forecast.
 - Input from the public on priority of City services and programs.

October-November 2010

- The City Manager's Preliminary Recommended budget was published for public and Council review.
- Filed the City's Preliminary Budget with the City Clerk and made copies available to the public.
- Presented the Preliminary Recommended Budget to City Council in televised workshop sessions and provided Council members with detailed information on the proposed budget.
- A public hearing on the Recommended Budget and related ordinances for fee increases was held on November 1st of 2010.

The final budget as adopted is published within the first three months of the new budget year. The City of Vancouver Biennial Budget is distributed to various agencies such as neighborhood associations and the Chamber of Commerce, and is made available to all interested citizens in paper format and on the Web.

State statutes provide for a mid-biennial review and modification of the biennial budget to allow flexibility for addressing issues unanticipated during the budget process. Modifications to the original adopted budget are proposed by

departments and reviewed by the Budget Office staff in conjunction with the City Manager and his/her management team. Adoption by the City Council requires a public hearing. There are usually two supplemental appropriations during any fiscal year. These procedures are in accordance with RCW's.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Vancouver Public Facilities District, a component unit, had excess expenditures over biennial appropriations for the year ending December 31, 2012. A supplemental budget to remedy this will be recorded in early June 2013.

C. DEFICIT NET POSITION/NET FUND BALANCE

At December 31, 2012, the Parking Services fund had a deficit in the fund net position of \$1,364,329. The Parking Services fund accounts for operations of City owned or operated public parking spaces. Depreciation expense (a non-cash item) for the period ending December 31, 2011 and 2012 was \$1,888,023. The City has increased collection efforts in 2012 by seeking judgments from delinquent payers. In addition, the City notifies the Department of Licensing of repeat offenders ("scofflaw" accounts with three or more unpaid citations). Those affected will be unable to renew their vehicle registration without payment in full.

At December 31, 2012, Vancouver Downtown Redevelopment Authority (DRA), a component unit of the City, had a deficit in the fund net position of \$18,972,424. The DRA activities involve the operation of a hotel and convention center in the City's central downtown area. This is a cash flow based project and the negative net asset balance is primarily attributed to accumulated depreciation and accumulated amortization of deferred charges, both of which are non-cash items. Additionally, the economic environment has had a negative impact on the convention and lodging business since the beginning of the great recession, and this is also reflected in the net position change. Deep cost-cutting measures have been put in place. The Board and the management of the DRA as well as the project monitor activities monthly. A series of revenue generating guidelines and on-going expense reductions have been implemented.

NOTE IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments are presented on the balance sheet in the basic financial statements at fair value or amortized cost, which approximates fair value, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Activities undertaken by the pool on behalf of the proprietary funds are not part of the operating, capital, investing, or financing activities of the proprietary funds, and details of these transactions are not reported in the Statement of Cash Flows. In general, interest earned from the pooled investments is allocated to each fund based on the average earnings and daily cash balance of each fund.

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

<u>Notes</u>	
Investments	\$ 232,599,153
Deposits	1,248,683
Deposits w/fiscal agent, escrow, trust **	13,209,875
Total	<u>\$ 247,057,711</u>
<u>Financial Statements</u>	
Cash and cash equivalents	\$ 224,747,724
Cash and cash equivalents – component units	208,639
Cash with fiscal agent/trustee	3,512,422
Cash with fiscal agent/trustee – component units	9,697,453
Fiduciary cash	7,364,854
Fiduciary investments	1,526,619
Total	<u>\$ 247,057,711</u>

** The bank balance with deposits with the trustee are \$589 higher than reported here due to timing issues with the bank posting transactions over year-end.

1. Deposits

At year-end, the City's carrying amount of deposits was \$1,248,683 and bank balance was \$1,452,414. The Federal Deposit Insurance Corporation (FDIC) provides unlimited insurance for the City's non-interest bearing deposits and up to \$250,000 insurance on interest bearing deposit and investments through December 31, 2012. All deposits and bank balances not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act of 1969. As of June 30, 2009, the State of Washington Public Deposit Protection Commission Act of 1969 was amended to require all public depositories within the State of Washington to fully collateralize their uninsured public deposits at 100%.

2. Investments

The City maintains an Internal Investment Pool. The Pool has an average maturity of approximately one year. Some funds are invested for the benefit of the respective fund. Remaining monies are aggregated in a residual account, and invested in the pool for the benefit of all funds. As required by state law, all investments of the City funds are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, or the Clark County Investment Pool. Regulatory oversight is performed by the CFO, the Treasurer, and the Treasury accountant. Because we are a government, at this point, we do not need any other type of regulatory oversight.

As of December 31, 2012 the fair value of the City's investment portfolio was \$232,599,152 of which \$1,526,619 was invested on behalf of the Firemen's Pension Fund, and \$231,072,532 was invested in the City's Internal Investment Pool for the benefit of all funds. Investments of pension funds are not subject to the preceding limitations under state law.

As of December 31, 2012, the City had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (Years)
Federal Agency Coupon Securities	\$ 66,807	0.29
Corporate Bond	500	0.00
Municipal Bonds	1,544	0.01
Washington State Investment Pool	112,229	0.48
Clark County Investment Pool	51,519	0.22
Total Fair Value	<u>\$ 232,599</u>	
Portfolio Weighted Average Maturity		1.00

* Fair value of pooled investments does not include adjustments made for accrued interest distributed to pooled participants.

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair values by keeping the average maturity of its investment portfolio less than 2 years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Washington State Investment Pool, a 2a7-like pool, is unrated. The Clark County Investment Pool is also an unrated fund and has oversight by the Clark County Finance Committee.

To limit risk, Washington State law and the City of Vancouver's investment policy limits the amount of the portfolio invested in commercial paper, banker's acceptances, and corporate bonds. It is the City's policy to limit its credit risk by only investing in commercial paper or banker's acceptances with a credit rating of A1 or P1, and investing in corporate bonds for the pension fund, with a credit rating of "A" or better (or equivalent) by nationally recognized statistical rating organizations. The ratings of debt securities as of December 31, 2012 are:

Fannie Mae (Federal National Mortgage Association)	AA
Freddie Mac (Federal Home Loan Mortgage Corporation)	AA
Federal Home Loan Bank	AA
Federal Farm Credit Bank	AA

Concentration of credit risk: Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places limits on the amount it may invest in any one issuer depending on the security type of the investment. At the end of 2012, the City's portfolio had the following concentration of securities in it: 4.3% of Federal Home Loan Bank, 15% of Federal National Mortgage Association, 4.3% of Federal Farm Credit Bank, and 5% of Federal Home Loan Mortgage Corporation. The City has several investments in government-sponsored enterprises which are not explicitly backed by the federal government. However, the federal government has provided significant support by increasing its investments in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and stated they would not allow these enterprises to fail.

B. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2012 is as follows:

	Restated Beginning Balance 01/01/12	Increases	Decreases	Ending Balance 12/31/12
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 60,397,856	\$ 3,066,152	\$ -	\$ 63,464,008
Intangible - Easements	7,260,900	787,666	-	8,048,566
Construction in progress	42,971,758	20,960,599	17,971,210	45,961,147
Total capital assets, not being depreciated	110,630,514	24,814,417	17,971,210	117,473,721
Capital assets, being depreciated/depleted:				
Cemetery land	1,101,047	-	-	1,101,047
Buildings	117,227,219	2,020,540	1,808,404	117,439,355
Machinery and equipment	47,425,195	4,128,812	2,447,620	49,106,387
Infrastructure	534,964,467	11,920,994	-	546,885,461
Intangible	6,697,864	635,524	-	7,333,388
Total capital assets being depreciated/depleted	707,415,792	18,705,870	4,256,024	721,865,638
Less accumulated depreciation for:				
Cemetery land	717,140	346	-	717,486
Buildings	26,457,898	3,087,451	1,482,127	28,063,222
Machinery and equipment	33,735,905	3,584,924	2,268,783	35,052,046
Infrastructure	159,516,009	14,902,132	-	174,418,141
Intangible	6,655,682	57,340	-	6,713,022
Total accumulated depreciation	227,082,634	21,632,193	3,750,910	244,963,917
Total capital assets, being depreciated, net	480,333,158	(2,926,323)	505,114	476,901,721
Governmental activities capital assets, net	\$ 590,963,672	\$ 21,888,094	\$ 18,476,324	\$ 594,375,442
Governmental activities, capital assets held for resale	\$ 5,801,535	\$ -	\$ -	\$ 5,801,535
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 29,235,379	\$ 1,015,915	\$ 104,500	\$ 30,146,794
Intangible - Easements	1,591,679	754,666	-	2,346,345
Construction in progress	9,876,121	8,920,771	6,376,474	12,420,418
Total capital assets, not being depreciated	40,703,179	10,691,352	6,480,974	44,913,557
Capital assets, being depreciated:				
Buildings and system	39,187,842	275,262	445,500	39,017,604
Infrastructure	498,590,046	4,313,869	-	502,903,915
Machinery and equipment	24,574,510	293,985	47,642	24,820,853
Intangible	9,175,273	-	-	9,175,273
Total capital assets, being depreciated	571,527,671	4,883,116	493,142	575,917,645
Less accumulated depreciation for:				
Buildings and system	17,659,370	1,307,822	37,124	18,930,068
Infrastructure	191,482,766	11,009,112	-	202,491,878
Machinery and equipment	20,128,229	1,072,053	47,642	21,152,640
Intangible	8,161,506	715,603	-	8,877,109
Total accumulated depreciation	237,431,871	14,104,590	84,766	251,451,695
Total capital assets, being depreciated, net	334,095,799	(9,221,474)	408,376	324,465,950
Business-type activities capital assets, net	\$ 374,798,978	\$ 1,469,878	\$ 6,889,350	\$ 369,379,507
Business-type, capital assets held for resale	\$ -	\$ 512,875	\$ -	\$ 512,875

The beginning balance of the Governmental and Business-type activities were restated as described in Note V.I. Prior Period Adjustments. The Governmental Construction in progress at December 31, 2011, was reported as \$42,780,833 and restated at January 1, 2012, to \$42,971,758. The Business-type Construction in progress at December 31, 2011, was reported at \$10,201,981 and restated at January 1, 2012, to \$9,876,121.

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

Governmental Activities:

General government	\$	703,505
Security of persons & property		1,918,049
Transportation, including depreciation of general infrastructure assets		13,579,658
Physical Environment		1,324
Economic Environment		757,518
Culture and recreation		2,663,310
Capital assets held by the government's internal service funds are charged to various functions based on their usage of the assets		2,008,829
Total depreciation expense — Governmental Activities	\$	<u>21,632,193</u>

Business-type Activities:

Water/Sewer	\$	12,707,302
Airpark		219,707
Building Inspection		214,127
Sanitation		10,216
Parking		930,919
Tennis Center		22,319
Total depreciation expense — Business-type Activities	\$	<u>14,104,590</u>

Component Units

A summary of capital asset activity for component units for the year ended December 31, 2012 is as follows:

	Beginning Balance 01/01/12	Increases	Decreases	Ending Balance 12/31/12
Vancouver Downtown Redevelopment Authority				
Business-type activities:				
Capital assets, being depreciated:				
Buildings and system	\$ 51,605,004	\$ -	\$ -	\$ 51,605,004
Machinery and equipment	<u>6,265,226</u>	<u>188,569</u>	<u>-</u>	<u>6,453,795</u>
Total capital assets, being depreciated	<u>57,870,230</u>	<u>188,569</u>	<u>-</u>	<u>58,058,799</u>
Less accumulated depreciation for:				
Buildings and system	8,170,792	1,290,125	-	9,460,917
Machinery and equipment	<u>5,884,916</u>	<u>121,818</u>	<u>-</u>	<u>6,006,734</u>
Total accumulated depreciation	<u>14,055,708</u>	<u>1,411,943</u>	<u>-</u>	<u>15,467,651</u>
Total capital assets, being depreciated, net	<u>43,814,522</u>	<u>(1,223,374)</u>	<u>-</u>	<u>42,591,148</u>
Business-type activities capital assets, net	<u>\$ 43,814,522</u>	<u>\$ (1,223,374)</u>	<u>\$ -</u>	<u>\$ 42,591,148</u>
Vancouver Public Facilities District				
Business-type activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ <u>3,603,691</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,603,691</u>

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Loans between funds are classified as interfund loans receivable or payable or as advances to and from other funds on the statement of net position. Within the City, one fund may borrow from another when specifically authorized by the City Council resolution. The interfund balances are in place to eliminate a temporary negative cash position. An advance from the General Fund to the Parking Services Fund for \$685,000 was made to reduce refunding debt.

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. The following table displays Due to and Due from activity outstanding as of December 31, 2012:

	Due from <u>Other Funds</u>	Due to <u>Other Funds</u>
Governmental Activities		
General Fund	\$ 406,521	\$ 564,476
Consolidated Fire Funds	-	17,974
Transportation Capital	2,071,207	10,486
GO Debt Service	475,372	475,372
Non-Major Governmental Funds	760,676	2,275,853
Subtotal Governmental Activities	3,713,776	3,344,161
Internal Service Funds	14,963	128,891
Governmental Activities	<u>3,728,739</u>	<u>3,473,052</u>
Business Activities		
Water/Sewer	23,126	15,744
Parking Services	50	9,873
Non-Major Business Type Activities	2,296	255,542
Subtotal Business Activities	<u>25,472</u>	<u>281,159</u>
Total Government Wide	<u>\$ 3,754,211</u>	<u>\$ 3,754,211</u>

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. The interfund transfer activity for the year is as follows:

Transfers Out								
Transfers In	General Fund	Fire	Transp Capital	GO Debt Service	Non-Major Govt Funds	Water Sewer	Non-Major Enterprise Funds	Total
General Fund	\$ -	\$ 17,474	\$ -	\$ -	\$ 108,023	\$ 66,400	\$ 132,937	\$ 324,834
Consolidated Fire	21,097,673	-	-	-	-	-	628,964	21,726,637
Transp Capital	67,963	-	-	-	11,491,526	-	-	11,559,489
GO Debt Service	7,433,826	376,781	26,742	-	4,058,367	-	-	11,895,716
Non-Major Govt Funds	9,944,488	-	-	-	791,009	419,964	63,625	11,219,086
Water/Sewer	56,237	976,256	-	-	26,173	-	5,128	1,063,794
Parking Services	1,245,540	-	-	-	-	-	-	1,245,540
Enterprise Funds	174,793	-	-	-	-	-	-	174,793
Total	<u>\$ 40,020,520</u>	<u>\$ 1,370,511</u>	<u>\$ 26,742</u>	<u>\$ -</u>	<u>\$ 16,475,098</u>	<u>\$ 486,364</u>	<u>\$ 830,654</u>	<u>\$ 59,209,889</u>

There were no significant transfers made during 2012 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

D. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$ 1,113,751	\$ -
Revenues not applied (General Fund)	182,659	205,384
Revenues not applied (Consolidated Fire Fund)	300,438	1,316,122
Revenues not applied (Transportation Capital)	6,264	-
Revenues not applied (Non-major Governmental Funds)	850,303	-
Special assessments not yet due (Non-major Governmental)	37,347	-
Totals	<u>\$ 2,490,762</u>	<u>\$ 1,521,506</u>

E. LEASE AGREEMENTS

1. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in City's statement of net position. For the year ended December 31, 2012, the costs for such leases were \$1,238,140 and \$724,260 for governmental and business-type activities, respectively.

The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2012:

	Governmental Activities	Business-type Activities
2013	\$ 178,702	\$ 4,800
2014	183,384	4,800
2015	188,669	4,800
2016	194,106	4,800
2017	199,701	-
2018-2022	896,174	-
2023-2027	584,669	-
2028-2032	669,606	-
2033-2037	269,471	-
	<u>\$ 3,364,482</u>	<u>\$ 19,200</u>

2. City as Lessor

The City is the lessor for some non-cancelable operating leases for facilities and property located within the City limits. Expiration dates range between 2013 and 2057.

The following is a schedule of the minimum future rental income required under these leases. They all are considered governmental activities.

	Governmental Activities
2013	\$ 1,545,287
2014	1,339,365
2015	1,067,876
2016	652,937
2017	628,278
2018-2022	493,016
2023-2027	112,537
2028-2032	112,537
2033-2037	112,531
2038-2042	112,527
2043-2047	112,527
2048-2052	112,527
2053-2057	112,527
	<u>\$ 6,514,472</u>

F. LONG-TERM DEBT

1. BONDS AND DEBT:

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds have been issued for both governmental and business-type activities. During the year, general obligation refunding bonds totaling \$25,460,000 were issued to partially refund the 2002 and 2003 outstanding LTGO bonds. Bond proceeds were also used to pay the costs of issuance of the refunding bonds.

General obligation bonds are direct obligations and are pledged by the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with fixed payments maturing each year. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or are created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding (in thousands) are as follows:

<u>Name of Issuance</u>	<u>Purpose</u>	<u>Original Debt</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
2002 LTGO Bond	Governmental Activities & Refunding	\$ 39,365	10/23/2002	12/1/2018	2%-5.25%	\$ 17,810
2003 LTGO Bond	Governmental Activities	18,520	6/3/2003	12/1/2013	2%-5%	510
2005 LTGO Bond	Governmental Activities & Refunding	18,090	7/15/2005	12/1/2026	3%-5%	13,405
2006 LTGO Bond	Governmental Activities	14,785	10/11/2006	12/1/2025	3.75%-5%	11,820
2008 LTGO Bond	Governmental Activities	14,570	6/30/2008	12/1/2027	3.5%-5%	11,295
2009 LTGO Bond	Governmental Activities	12,970	6/1/2009	12/1/2028	3.5%-5%	11,245
2010 LTGO Bond	Governmental Activities	13,410	12/1/2010	12/1/2035	2.0%-5.125%	12,425
2011 LTGO Bond	Governmental Activities	10,515	6/1/2011	12/1/2035	2.0%-5.125%	10,220
2012A LTGO Bond	Governmental Activities Refunding	15,945	1/12/2012	12/1/2029	2.0%-3.75%	15,855
2012B&C LTGO Bond	Governmental Activities Refunding	9,515	12/12/2012	12/1/2025	0.61%-2.89%	9,515
<i>Total General Obligation Bonds</i>		<u>\$ 167,685</u>				<u>\$ 114,100</u>

City management provides for cash to fund current debt service requirements as a part of the biennial budgeting process. Annual debt service requirements to maturity for general obligation bonds (in thousands) are as follows:

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2013	\$ 7,246	\$ 4,450	\$ 11,696	\$ 1,029	\$ 488	\$ 1,516
2014	7,550	4,153	11,703	1,080	442	1,522
2015	7,872	3,828	11,700	1,133	387	1,520
2016	7,319	3,465	10,785	1,181	329	1,510
2017	6,663	3,112	9,775	922	269	1,191
2018-2022	26,550	11,568	38,118	4,865	799	5,664
2023-2027	24,285	6,051	30,336	3,165	180	3,345
2028-2032	9,285	1,962	11,247	-	-	-
2033-2035	3,955	387	4,342	-	-	-
	<u>\$ 100,725</u>	<u>\$ 38,976</u>	<u>\$ 139,701</u>	<u>\$ 13,375</u>	<u>\$ 2,894</u>	<u>\$ 16,268</u>

The City's legal limit of indebtedness is 1 ½% of assessed property value without a vote of the taxpayers and an additional 1% with a vote of the taxpayers. At December 31, 2012 the remaining non-voted and voted remaining capacity for indebtedness was \$118,001,484 and \$132,222,658 respectively.

The City has also received governmental loans to provide for construction of capital projects. Governmental loans outstanding (in thousands) at year-end are as follows:

Name of Issuance	Purpose	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2006 PWTF	Governmental-Type Activities	\$ 2,200	11/30/2006	7/1/2026	1%	\$ 1,631
Section 108 HUD Loan	Governmental-Type Activities	3,923	7/7/2010	8/1/2015	3-month LIBOR plus 20 bp	3,923
Dept of Ecology Revolving Fund Loan	Business-Type Activities	356	1/11/2010	12/1/2034	2.9%	356
		<u>\$ 6,479</u>				<u>\$ 5,910</u>

Government and bank loan debt service requirements to maturity (in thousands) are as follows:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 116	\$ 83	\$ 200	\$ -	\$ -	\$ -
2014	116	158	274	18	10	28
2015	4,039	132	4,171	18	10	28
2016	116	6	123	18	9	27
2017	116	6	122	18	9	27
2018-2022	582	20	603	89	36	125
2023-2027	466	6	472	89	23	112
2028-2032	-	-	-	89	10	99
2033-2037	-	-	-	18	1	18
	<u>\$ 5,554</u>	<u>\$ 411</u>	<u>\$ 5,965</u>	<u>\$ 356</u>	<u>\$ 108</u>	<u>\$ 464</u>

The Section 108 Loan was approved for a total of \$6.8 million, however through the 12/31/12 only \$3,923,000 was drawn down on the loan. The loan has quarterly interest-only payments, with the total principal balance due on August 1, 2015. The Washington State Department of Ecology loan is authorized for \$1.1 million. As of December 31, 2012, only \$356,033 was expended. City staff has determined that no additional draws will be drawn. This loan has a delayed repayment schedule. The first payment is due in 2014. At that time the loan will have even payments due twice per year. The table above reflects debt service estimated debt service payments on these loans based on balances outstanding on December 31, 2012.

At December 31, 2012, the City had \$958 available in debt service fund balance. Several other funds are responsible for payment of the GO bonded debt. Through the budget appropriation process, arrangements are made for transfers from those funds to the debt service funds prior to payment of the debt.

Special Assessment Debt

The government also issues special assessment debt to provide funds for the construction of water and sewer utilities in residential areas without existing infrastructure. Special assessment bonds are created by ordinance, adopted by Council, and financed by assessments on property owners. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The City's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has a Local Improvement District Guaranty Fund to finance any uncollectible special assessment debt. Special assessment debt with a governmental commitment reported at year end is (in thousands) as follows:

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
Assessment Notes Receivable	\$ 213	8/31/1996	8/31/2016	6.75%	\$ 9
<i>Total Assessment Debt</i>	<u>\$ 213</u>				<u>\$ 9</u>

Special assessment bonds are serial bonds but are called yearly based on assessments received. Annual debt service requirements to maturity for special assessment bonds are (in thousands) as follows:

Governmental Activities			
	Principal	Interest	Total Requirements
2013-2016	\$ 9	\$ 1	\$ 10
Total	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ 10</u>

The Local Improvement District Debt Service Fund and the Local Improvement District Guaranty Debt Service Fund have \$1,388 and \$1,094 respectively, to service the local improvement district bonds.

Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council, and financed from enterprise fund revenues. The Water/Sewer revenue bonds are issued to finance capital projects.

Revenue bonds outstanding at year-end are (in thousands) as follows:

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
1993 Water Sewer	\$ 35,155	8/9/1993	6/1/2013	2.65%-5.5%	\$ 3,285
2004 Water Sewer Refunding	26,250	2/26/2004	6/1/2020	2%-5%	21,030
2005 Water Sewer Refunding	42,520	4/4/2005	6/1/2018	3%-5.5%	25,345
2008 Water Sewer Refunding	20,230	6/3/2008	6/1/2016	3.25%-5%	11,480
<i>Total Revenue Bonds</i>	<u>\$ 124,155</u>				<u>\$ 61,140</u>

Business Type Activities:

Revenue bond debt service requirements to maturity are (in thousands) as follows:

	Principal	Interest	Total Requirements
2013	\$ 11,150	\$ 2,812	\$ 13,962
2014	9,095	2,331	11,426
2015	9,550	1,868	11,418
2016	10,045	1,369	11,414
2017-2020	21,300	1,875	23,175
	<u>\$ 61,140</u>	<u>\$ 10,255</u>	<u>\$ 71,395</u>

The reserve and redemption accounts of the Water/Sewer enterprise funds have \$4,012,638 available to service the revenue debt, plus the city has purchased surety dollars in addition to meet debt service reserve requirements.

Water/Sewer revenue bond covenants require that revenue available for debt service (defined as operating and non-operating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.3 to 1. The City remains in compliance with that provision with a current ratio of 2.21 to 1 coverage. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Advance refunding

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase US Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been removed as a liability from the Governmental Activities column of the Statement of Net Position. The excess balance in the table below is available to pay interest on the outstanding bonds.

The following is a schedule of outstanding bonds (in thousands) that are either refunded or defeased:

Name of Issue	Year Issue Defeased	Cash on Deposit With Trustee	Investment With Trustee	Bonds Payable	Fund Balance (Deficit)
<i>General Obligation Bonds</i>					
2002 LTGO & Refunding Bonds	2012	\$ 12	\$ 9,527	\$ (9,480)	\$ 59
2003 LTGO Bonds	2012	0	15,959	(14,985)	974
		\$ 12	\$ 25,486	(24,465)	1,033

2. COMPENSATED ABSENCES AND IMPACT FEE CREDITS:

Compensated Absences

Accumulated amounts of vacation leave are accrued as expenses when incurred in the government-wide and proprietary fund financial statements. At December 31, 2012, the recorded liability for compensated absences amounted to \$10,007,524 with \$8,155,139 recorded in governmental activities and \$1,852,385 recorded in business-type activities. City employees receive personal time off (PTO), vacation and sick leave time at monthly rates established by City ordinance or union agreement. PTO is accrued semi-monthly by employees at an annual rates ranging from 22.5 to 39.5 days depending upon tenure. Vacation is accrued semi-monthly by employees at annual rates ranging from 15 to 35 days depending upon tenure and union agreements. Accumulated PTO and vacation carryover between years is limited to twice an employee's current year accrual. Sick leave accruals vary, depending upon union agreement, between 10 and 24 hours per month. City Policy and all contracts provide for a pay off of sick leave in some instances. Employees who are not covered by contract and were age 50 or who had more than 14 years of service as of January 1, 1980 may qualify for payoff of up to 50% of their sick leave balance at retirement. Employees who are covered by either the Joint Labor Coalition, AFSCME or OPEIU contracts and were hired prior to January 1, 1980 may qualify for 50% payoff of their sick leave balance at retirement. Employees covered under law enforcement contracts and who were hired prior to January 1, 1981, and employees covered by fire suppression and command contracts and who were hired prior to January 1, 1983, may qualify for 50% payoff of their sick leave balance at retirement, or 25% upon leaving the employer in good standing for reasons other than retirement. For the governmental activities, compensated absences are generally liquidated by operating funds, such as the General Fund and Consolidated Fire funds.

Impact Fee Credits

In 1995, the City of Vancouver adopted an impact fee ordinance to ensure that adequate facilities are available to serve new growth and development. An impact fee is charged at the issuance of a building permit. In addition, the developer may be entitled to a non-refundable "credit" against the applicable impact fee component for the fair market value of appropriate dedications of land, improvements or new construction of system improvements provided by the developer. In the event that the amount of the "credit" is calculated to be greater than the amount of the impact fee due, the developer may apply the excess "credit" toward future impact assessment on other developments within the same service district. As of December 31, 2012, the amount of credits that may be applied against future impact fees is \$11,937,617. This is recorded as a governmental activity in the Government-wide Financial Statements.

3. CHANGES IN LONG TERM LIABILITIES:

The following is a summary of long-term debt changes of the City for the year (in thousands):

	Restated Beginning Balance 1/1/12	Additions	Reductions	Ending Balance 12/31/12	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 106,903	\$ 18,120	\$ 24,298	\$ 100,725	\$ 7,246
Less deferred amounts					
For issuance premiums	4,127	615	988	3,754	407
For issuance discounts	(23)	-	(4)	(19)	(3)
On refunding	(1,650)	(1,163)	(337)	(2,476)	(260)
Total bonds payable	109,357	17,572	24,945	101,984	7,390
Special assessment debt with governmental commitment	12	-	3	9	3
Government loans	5,664	6	116	5,554	116
Claims and judgements	5,069	229	2,315	2,983	1,097
Net OPEB Obligation (See Note V.G for details)	3,841	2,659	1,683	4,817	-
Compensated absences	7,998	6,556	6,399	8,155	6,524
Impact Fee Credit	9,951	2,825	838	11,938	1,286
Governmental activity long term liabilities	<u>\$ 141,892</u>	<u>\$ 29,847</u>	<u>\$ 36,299</u>	<u>\$ 135,440</u>	<u>\$ 16,416</u>
Business-type activities					
Bonds payable					
General obligation bonds	\$ 14,187	\$ 7,340	\$ 8,152	\$ 13,375	\$ 1,029
Revenue bonds	71,785	-	10,645	61,140	11,150
Less deferred amounts					
For issuance premiums (discounts)	4,064	133	953	3,244	568
On refunding	(3,761)	178	(530)	(3,053)	(513)
Total bonds payable	86,275	7,651	19,220	74,706	12,234
Government loans	356	-	-	356	-
Environmental remediation	399,000	21,000	21,000	399,000	21,000
Compensated absences	1,775	1,497	1,420	1,852	1,482
Business-type activity long term liabilities	<u>\$ 487,406</u>	<u>\$ 30,148</u>	<u>\$ 41,640</u>	<u>\$ 475,914</u>	<u>\$ 34,716</u>

The beginning balances of the governmental activities Impact Fee Credits were restated as described in Note V.I. Prior Period Adjustments. The beginning balance was reported at December 31, 2011 as \$9,566 (in thousands) and has been restated to \$9,951 (in thousands) at January 1, 2012.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$368,809 of internal service funds compensated absences are included in the above amounts. For the governmental activities, claims and judgments and compensated absences are generally liquidated by operating funds, such as the General Fund, Consolidated Fire and the Street funds. The General Fund provides funding for the payment of benefits related to OPEB,

4. COMPONENT UNIT DEBT:

In 2003, the Downtown Redevelopment Authority (DRA), a component unit of the City, issued bonds in which it pledged income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the DRA Board, and financed from operating revenues. The revenue bonds were issued to finance construction of the Conference Center and Hotel capital project. Revenue bonds outstanding at year-end are as follows:

The 2003A Revenue Bonds were issued in the amount of \$65,855,000 in December 2003. Annual principal installments range from \$550,000 to \$9,510,000. Interest rates on this issue range from 4.0% to 6.0%. The amount of outstanding principal at December 31, 2012 is \$63,855,000.

The 2003B Subordinate Revenue Bonds are capital appreciation revenue bonds received in two installments. The authorized amount of these revenue bonds is \$2,420,000. The first installment was issued in the amount of \$155,000 in December 2003, of which \$99,784 was received and accreted to the face value of \$155,000 over the last five years. The second installment \$2,265,000 was issued on June 1, 2005. DRA received \$1,652,204 and the \$612,796 difference was accreted to the face value over the last three and one-half years. The interest rate on this issue is 9.00% beginning January 1, 2009. There are mandatory sinking fund payments. However, failure to redeem or to pay at maturity for any reason while any senior bonds are outstanding shall not constitute default. There have been no sinking fund payments made. On December 31, 2012, \$2,420,000 is outstanding.

Under an interlocal agreement with the Clark County Public Facilities District (PFD), DRA is liable to the Clark County PFD for state sales credit monies received by the DRA. Payments under this agreement are received by Clark County PFD monthly and forwarded to the DRA. This creates a liability for the DRA to repay these funds via three methods. The first is a predetermined tax cap in the 2003A Bond indenture which changes each year through 2034, for Clark County PFD, Vancouver PFD, and City of Vancouver lodging taxes, so that the funds in excess of the tax cap are returned to the Clark County PFD. The second method occurs after funds flow through the 2003A bond indenture distribution requirements. The monies available in the end are return to Clark County PFD. A third method is, if the City of Vancouver makes payments to the Clark County PFD, these amounts decrease the DRA liability to Clark County PFD after each payment.

DRA 2003A and 2003B Revenue bond debt service requirements to maturity are as follows:

Revenue Bonds			
	Principal	Interest	Total Requirements
2013 \$	750,000 \$	4,570,250 \$	5,320,250
2014	1,220,000	3,664,731	4,884,731
2015	1,095,000	3,587,100	4,682,100
2016	1,130,000	3,525,013	4,655,013
2017	1,315,000	3,456,338	4,771,338
2018-2022	9,495,000	15,942,650	25,437,650
2023-2027	14,550,000	12,750,444	27,300,444
2028-2032	21,630,000	7,632,113	29,262,113
2033-2034	15,090,000	1,001,719	16,091,719
\$	<u>66,275,000</u> \$	<u>56,130,356</u> \$	<u>122,405,356</u>

Principal payment dates are on January 1 in the calendar year immediately following.

\$4,070,000 from the original bond proceeds still remains available in the senior debt service account to service revenue debt. This balance is presented as cash with fiscal agents in the balance sheet.

CITY OF VANCOUVER
NOTES TO THE BASIC FINANCIAL STATEMENTS

Component Units Changes in Long Term Liabilities

The following is a summary of long-term debt changes of the authority for the year (in thousands):

	Restated Beginning Balance 1/1/12	Additions	Reductions	Ending Balance 12/31/12	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 66,920	\$ -	\$ 645	\$ 66,275	\$ 750
Less deferred amounts					
For issuance premiums (discounts)	340	0	15	325	15
Due to other governments	4,541	981	202	5,320	-
Total bonds payable	71,801	981	862	71,920	765
Subordinate bond interest	678	193	-	871	-
Subordinate management fee	617	305	-	922	-
Component units long term liabilities	\$ 73,096	\$ 1,479	\$ 862	\$ 73,713	\$ 765

G. FUND BALANCE REPORTING

The City of Vancouver implemented GASB Statement no 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to improve the usefulness and understandability of governmental fund balance information. It provides more clearly defined categories to make the nature and extent of constraints placed on a government's fund balance more transparent. It also clarifies the existing fund type definitions to improve the comparability of governmental fund financial statements and help users better understand the purpose for which governments have chosen to use particular funds for financial reporting.

Categories of fund balance:

Non-spendable – Amounts that cannot be spent either due to the physical form or as a result of a legal or contractual obligation (such as the corpus of an endowment fund).

Restricted – Amounts constrained due to specific purposes by either a third party (such as grantors, bondholders, and creditors) or by law through constitutional provision or enabling legislation.

Committed- Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government's highest level of decision-making authority (City Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove it.

Assigned- Amounts constrained by the City's expressed intent to use the resources for specific purposes. With the exception of the General Fund, this is the residual fund balance of all governmental funds with positive fund balance.

Unassigned – Amounts that are residual classification for the General Fund only.

Fund balances by classification for the year ended December 31, 2012 are as follows:

Fund Balance Classifications:	General Fund	Consolidated Fire Fund	GO Debt Service	Transportation Capital	Non-major Governmental Funds	Total Governmental Funds
Nonspendable						
Long Term Notes Receivable \$	685,000	\$ -	\$ -	\$ 261,250	\$ 4,577,210	\$ 5,523,460
Capital assets held for resale	228,400	-	-	-	5,529,135	5,757,535
	<u>913,400</u>	<u>-</u>	<u>-</u>	<u>261,250</u>	<u>10,106,345</u>	<u>11,280,995</u>
Restricted						
Grants received in advance	304,952	-	-	-	-	304,952
Capital purposes	-	-	-	3,308,496	41,943,900	45,252,396
Economic development	-	-	-	-	441,010	441,010
Security	759,755	12,571,553	-	-	1,239,727	14,571,035
Debt Service	-	-	958	-	5,327	6,285
Culture and recreation	-	-	-	-	29,804	29,804
	<u>1,064,707</u>	<u>12,571,553</u>	<u>958</u>	<u>3,308,496</u>	<u>43,659,768</u>	<u>60,605,482</u>
Committed						
Capital purposes	879,497	-	-	2,175,903	1,366,845	4,422,245
Emergency reserves	9,894,592	-	-	-	-	9,894,592
Revenue Stabilization	3,196,438	-	-	-	-	3,196,438
Working capital	26,305,992	-	-	-	-	26,305,992
Economic development	-	-	-	-	757,087	757,087
Cemetery	-	-	-	-	427,194	427,194
Transportation Operations	-	-	-	-	5,535,156	5,535,156
	<u>40,276,519</u>	<u>-</u>	<u>-</u>	<u>2,175,903</u>	<u>8,086,282</u>	<u>50,538,704</u>
Assigned						
Capital purposes	-	-	-	-	2,270,033	2,270,033
Economic development	-	-	-	-	100,000	100,000
Compensated absences	3,893,165	-	-	-	-	3,893,165
	<u>3,893,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,370,033</u>	<u>6,263,198</u>
Unassigned	<u>4,788,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,788,967</u>
Total	<u>\$ 50,936,758</u>	<u>\$ 12,571,553</u>	<u>\$ 958</u>	<u>\$ 5,745,649</u>	<u>\$ 64,222,428</u>	<u>\$ 133,477,346</u>

Stabilization Arrangements

There are two stabilization arrangements within the City, for which the City is disclosing as committed fund balance within the General Fund: Emergency Reserves and Revenue Stabilization. These reserves were committed by Council Resolution M-3370 and adopted on May 7, 2012.

An Emergency Reserve will be maintained in the General Fund equal to 7% of actual external revenues in the preceding fiscal year in the General Fund, Street and Consolidated Fire Funds. The Emergency Reserve is for unexpected, large-scale events where damage in excess of \$1 million is incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, etc.). In the event these "Emergency Reserve" funds are utilized, the City shall restore the reserve to the full 7% level within a reasonable amount of time as necessitated by the scale of emergency. A clear plan will be developed to refill the reserve and the first significant deposit will occur the following fiscal year after the event.

The City maintains a "Revenue Stabilization" reserve with a goal of reaching 2.5% of the current year's budget in the General fund. This reserve may be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, reductions in state shared revenues, etc. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical city activities. If the reserve is spent down, it shall be restored within the following two years. This reserve could be utilized if there is an identified 3-6 month trend of reduced revenues.

NOTE V. OTHER DISCLOSURES

A. RELATED PARTY TRANSACTIONS

In December 2003, the Downtown Redevelopment Authority, a component unit of the City of Vancouver, began construction of a Convention Center and Hotel in downtown Vancouver. The project was funded by proceeds from the sale of tax exempt bonds issued by the Vancouver Downtown Redevelopment Authority. The bonds were secured by project revenues, together with a credit from the State of Washington equal to 0.033% of 1% of the sales and use tax collected within the City and Clark County, and a dedication of 50% of the lodging taxes collected within the City. During 2012, the City contributed \$469,959 to the project in lodging tax revenues.

B. CONTINGENCIES AND COMMITMENTS

Litigation

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. It is the opinion of City management and the City Attorney that any losses which may ultimately be incurred as a result of the suits and claims will not be material.

Grants

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

Contract Commitments

The City has active contracts for professional services and construction projects as of December 31, 2012. The professional services contracts are primarily for operations of a sewer treatment facility, architectural, engineering and technology contracts. These construction projects include large transportation and infrastructure projects and facility projects. Significant City commitments to contracts as of fiscal year end totals \$46,424,980.

Related Party Commitments:

1. Commitment to Downtown Redevelopment Authority (DRA), with respect to the Vancouver Conference Center

The City signed an agreement on December 1, 2003, to participate in the construction and operation of the Vancouver Conference Center, using tourism funds. This is further discussed in Notes 1 and IV.F.

Under this agreement the City has pledged Guaranteed Revenues and Guaranteed Reserve amounts. The tax related revenue refers to the aggregate amount of City Sales and Use taxes, County Sales and Use taxes, and City Lodging Taxes for each calendar year to a minimum amount, as follows:

Schedule of Guaranteed Revenue

Year	Guaranteed Amt	Year	Guaranteed Amt
2013	\$ 2,000,000	2024	\$ 2,200,000
2014	2,000,000	2025	2,200,000
2015	2,100,000	2026	2,200,000
2016	2,100,000	2027	1,700,000
2017	2,200,000	2028	1,200,000
2018	2,200,000	2029	1,000,000
2019	2,200,000	2030	1,000,000
2020	2,200,000	2031	1,000,000
2021	2,200,000	2032	1,000,000
2022	2,200,000	2033	1,000,000
2023	2,200,000		

The tax revenues have exceeded the guaranteed revenue amounts every year.

The Guaranteed Reserve is an amount the City agrees to pay if the DRA has not accumulated enough funds to pay debt service up to the limits noted below. In 2012, the City made guarantee payments of \$469,959.

Schedule of Guaranteed Reserves

Year	Guaranteed Amount	Year	Guaranteed Amount
2013	650,000	2024	\$ 440,000
2014	650,000	2025	440,000
2015	550,000	2026	800,000
2016	550,000	2027	1,400,000
2017	550,000	2028	1,400,000
2018	550,000	2029	1,400,000
2019	550,000	2030	1,400,000
2020	440,000	2031	1,400,000
2021	440,000	2032	1,400,000
2022	440,000	2033	1,400,000
2023	440,000		

2. Commitment to Clark County, with respect to the Exhibition Hall

The City signed an interlocal agreement on September 14, 2004, for support of the Exhibition Hall. This hall is considered a tourism related facility which would benefit both the County and City. Beginning in 2005, the City pledges it will pay an amount of money (up to certain maximum amounts) which would be necessary to enable the County to meet its semi-annual debt service obligation, should they fall short from revenues dedicated for this purpose. For 2012-2016, the maximum amount is \$200,000, and from 2017 through termination, the maximum is \$150,000.

However, since the County reduced the rental rates for the Exhibition Hall to such an extent in July of 2008, this commitment no longer applies, per terms of the interlocal agreement.

To date, no such payments have been made against this agreement since the dedicated revenues have been adequate to cover the debt service. This agreement will be terminated once the bonds issued to finance the Exhibition Hall have been redeemed or defeased, no later than 2027.

3. Commitment to Hilton Hotel, with respect to the Subordinate and Supersubordinate Management Fees

The DRA signed an agreement on December 1, 2003, for the operation of the Vancouver Conference Center. In that agreement, during the fourth full year of operation, which was 2009, the Manager of the Vancouver Conference Center (Hilton Hotels) would earn a subordinate management fee for its services. These fees will be paid subject to the availability of amounts in the Subordinate Management Fee Fund. Also, during the sixth full year of operation, a supersubordinate management fee for its services. These fees will be paid subject to the availability of amounts in the Supersubordinate Management Fee Fund. Since there was no available balance in either funds during 2009, 2010, 2011 or 2012, the amount of \$921,611 has been accrued, and is also shown in the Component Units summary of long term debt changes in Note IV.F.4.

4. Commitment to the IRS, with respect to Arbitrage

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. The City of Vancouver carefully monitors its investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2012, the City has no arbitrage rebate liability.

C. JOINT VENTURES

The City is involved in a joint operation with other governmental entities in the establishment and operation of the Clark Regional Emergency Services Agency. Control of the entity is shared equitably by the controlling organizations. For reporting purposes, this entity is shown as a governmental activities joint venture. The City's share of ownership is reported as "Investment in joint venture" in the government-wide statement of net position. Control in this entity, by participating governmental entities, is by board representation.

Clark Regional Emergency Services Agency

Clark Regional Emergency Services Agency (the Agency) was created under the Interlocal Cooperation Act (RCW 39.4) by agreement between the City and other governmental units and political districts. Its purpose is to provide a consolidated public safety communications service to participating cities, political districts, and Clark County. The City has a 40% interest in the equity and operations of the Agency. Given the timing of available information, the City is reporting its investment in the joint venture at the 2011 values. In 2011, the Agency had an increase in net position totaling \$1,611,186. The City's share of 2011 operations was a gain of \$644,474 over 2011 balances for a total equity interest of \$2,009,259 at the end of 2011. Current liabilities are comprised of amounts owed to vendors, other governments, and accrued employee leave liabilities. The entity's long-term debt consists mainly of deferred compensation and accrued liabilities. The entity's long-term debt is unsecured. Clark County maintains the accounting records for Clark Regional Emergency Services Agency. Detailed financial statements for this entity can be obtained from Clark Regional Emergency Services Agency at 710 W 13th St, Vancouver, WA 98660-2810.

D. RISK MANAGEMENT

During 1977, the City became a qualified self-insurer for workers' compensation as an alternative to the state program. In 1978, all local governments within Washington State were brought under the state unemployment tax coverage, which also allowed qualified cities to become self-insured. The City qualified and became self-insured for unemployment in 1978. The City established a Self-Insurance Internal Service fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, workers' compensation, unemployment, and property. Commercial insurance is purchased to handle risk of loss. In the past three years, no settlement has exceeded the City's insurance limits.

General liability and Property

The self-insurance cost for liability claims and claims administration through December 31, 2012, is \$794,633 with 89 new claims filed for 2012. The fund pays the majority of claims involving general liability, but has other liability coverage through specific policies. Currently, specific policies include airport liability at an annual cost of \$4,535. Coverage totals \$5,000,000 for liability and \$5,000,000 for hangar keepers legal. In addition, the City purchases excess liability insurance for all City operations including auto, for a limit of \$10,000,000 plus \$10,000,000 excess at an annual cost of \$377,099. The excess policy provides \$1,000,000 for self-insured retention. The City also purchases liability on specific vehicles up to \$1,000,000 at an annual cost of \$9,295 and inland marine coverage for the equipment fleet at an annual cost of \$41,396. The deductible for fleet physical damage is 5% subject to \$10,000 minimum.

Property claim costs in 2012 were \$385,236, with 29 new first party property and vehicle claims reported in 2012. The City carries fire damage insurance (buildings and business personal property), earth movement, equipment breakdown, valuable papers, computer virus, accounts receivable and flood insurance coverage at an annual cost of \$377,099 for all City buildings and contents. Policy coverage for property damage is up to \$400 million with adjustable deductibles based on specific event types. This represents replacement cost for City buildings and contents.

Worker's compensation

The cost for Workers' Compensation claims and claims administration was \$1,134,637 in 2012, with 76 new claims processed. Reportable claims costs for 2012 are \$173,747 with 48 open claims. The City is self-insured through the fund for workers' compensation; however, an excess coverage policy is carried at an annual premium cost of \$69,014. The policy has a \$750,000 deductible.

Contributions and reserves

City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. The claims liability reported in the fund totaled \$2,983,490 at December 31, 2012.

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The following was prepared based on an actuarial analysis by Bickmore dated April 3, 2013. These are actuarial estimated amounts

reflecting expected losses; actual losses may vary slightly. Changes in the fund's claims liability amount in 2012, 2011, and 2010 are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2012	\$ 5,069,318	\$ 228,678	\$ 2,314,506	\$ 2,983,490
2011	4,777,835	2,773,416	2,481,933	5,069,318
2010	4,518,225	2,061,679	1,802,069	4,777,835

E. PROPERTY TAXES

The Clark County Treasurer acts as an agent to collect property taxes levied in the County for the City and all other taxing authorities. (See Note I: D.2 receivables and payables for additional discussions).

Property Tax Calendar

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

Cities are permitted to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services and \$0.225 per \$1,000 for local Fire Pension Funds. However, a separate library district was formed in 1981 for the tax year 1982, and this district annexed the City thus reducing the City's levy rate by \$.50 per \$1,000 of assessed valuation to \$3.10/\$1,000. Because the City has a local Fire and Police Pension Funds, the City is able to add \$0.225 to the levy rate per \$1,000 of assessed valuation which makes the City's maximum levy rate at \$3.325/\$1,000. This amount may be reduced for any of the following reasons:

- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value, except for port districts and public utility districts. Within the one percent limitation, RCW 84.52.043(2) imposes an aggregate limitation on regular levies by all taxing districts, other than the State, of \$5.90/\$1,000 of assessed value, except for levies for any port or public utility district; excess levies authorized in Article VII, Section 2 of the State Constitution; and certain levies for acquiring conservation futures, for emergency medical services or care, and to finance affordable housing.
- The regular property tax increase limitation (chapter 84.55 RCW), as amended most recently by Initiative No. 747 (which was passed by voters in 2001), limits the total dollar amount of regular property taxes levied by an individual local taxing district such as the City to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, annexations, improvements and State-assessed property at the previous year's rate. The limit factor is the lesser of 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property) or 100 percent plus inflation, unless a greater amount is approved by a simple majority of the voters. With a supermajority vote of the Council, the limit factor is a flat 101 percent. On November 8, 2007, the Washington Supreme Court ruled Initiative 747 unconstitutional. On November 29, 2007, the Legislature approved a bill reinstating the 101 percent property tax limit factor approved by the voters under Initiative 747.
- The City may voluntarily levy taxes below the legal limit.

Special levies approved by the voters are not subject to the above limitations.

For 2012, the City's regular tax levy was \$2.989 per \$1,000 on a total taxable 2012 assessed valuation of \$13,704,224,212 for a total regular levy of \$40,957,344.

Outstanding property taxes at December 31, 2012 amount to \$1,241,427. The City does not establish an allowance for doubtful accounts since state law has authorized sales of taxed property to satisfy delinquent property taxes.

All property taxes are received into the General, Fire and Street funds. Transfers are then made into the general obligation debt service funds as required by the bond ordinances. Any shortages due to delinquent property taxes are absorbed by the General Fund.

F. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

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

1. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) Plans 1, 2, and 3

Plan Description:

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal court; and employees of local governments. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index) and capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 44; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	<u>46,839</u>
Total	<u>261,705</u>

Funding Policy:

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officers and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 of the RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2011, were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

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

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and its employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2012	\$ 31,363	\$2,155,620	\$337,306
2011	26,343	1,876,386	322,831
2010	30,084	1,707,495	282,769

2. LAW ENFORCEMENT OFFICERS' & FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) Plans 1 and 2

Plan Description:

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers, and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective January 1, 2003, fire fighter emergency medical technicians (EMTs) may transfer Public Employees' Retirement System (PERS) Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for a city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible to retire with five years of service at the age of 50. The benefit per year of service is calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	<u>3,113</u>
Total	<u>27,658</u>

Funding Policy:

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 of the RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

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

** The employer rate for ports and universities is 8.62%.

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2012	\$0	\$1,759,338.56
2011	22	1,695,890
2010	549	1,661,149

3. POLICE OFFICERS AND FIREFIGHTERS' PENSION FUNDS

The City administers two single employer defined benefit pension plans, Police Pension Fund and Fire Pension Fund. These funds were established by the City in compliance with requirements of the Revised Code of Washington 41.20 and 41.18. The plans are limited to police officers, firefighters and their beneficiaries for individuals employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the state undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970, as discussed later. The plans are closed plans that provide pension and medical benefits, some of which can be in excess of LEOFF benefits.

Benefit Provisions

The LEOFF Act requires a varying obligation of the City for benefits paid to police officers and firefighters.

- Pension and medical expenses for police officers and firefighters retired prior to March 1, 1970, continue to be paid in their entirety by the City under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the reasonable cost of necessary medical expenses of the retiree for life.
- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the City is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977, are covered entirely by the LEOFF system with no City obligation for either retirement allowance or medical expenses.

There were no changes in benefit provisions in the current year.

Summary of Significant Accounting Policies

The Police and Fire plans are shown as trust funds in the financial statements of the City. The financial statements are prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City follows GASB Statement No. 50, "Pension Disclosures," which amends GASB statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures" and GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." As such, we will be reporting funding progress of the pensions, as required.

As of December 31, 2012, the Firefighters Pension fund had an investment portfolio with fair value of \$1,526,619, which was invested in U.S. Governmental Agencies, a Corporate Bond, and in Municipal Bonds on behalf of the Firemen's Pension Fund. In addition to these investments, the Firefighters Pension fund had cash and cash equivalents invested in the City's internal investment pool totaling \$5.4 million. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days, the Clark County Local Government Investment Pool, US Agencies and in Municipal Bonds. All investments are valued at fair value. The Police Pension fund reported no investments at December 31, 2012, but did have \$1,191,560 invested in the City's internal investment pool. Investments are reported at fair value.

The City does not hold an investment in any one corporation or organization exceeding 5% of net assets available for benefits. Additionally, the City does not have any long-term contract for contributions and any amounts outstanding at the report date.

Contributions and Reserves

Each Plan receives funding as detailed in section A of this note. Funding for the Police Pension Fund comes from annual transfers from the General Fund that are budgeted and approved by Council. Sources of funding for the Firefighters Pension Fund include donations, distributions from the state from fire insurance premium collections, and a property tax levy of up to \$.45 per \$1,000 of assessed valuation. Milliman Consultants and Actuaries completed actuarial studies of the two funds as of December 31, 2012. The General Fund is responsible for the costs of administering the plans. Obligations for medical expenses are funded for the most part by group insurance. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2012, the Police Pension Funds and the Firefighters Pension Fund reported net position reserved for payment of future claims of \$1,222,364 and \$6,980,331, respectively.

Police and Fire Pension Funds Annual Pension Cost and Net Pension Obligation

	Police Pension	Fire Pension
Amortized of Unfunded Actuarial Liability (UAAL)	\$ 162,780	\$ 99,269
Interest to December 31, 2012	6,511	3,971
Actuarial Required Contribution (ARC) 12/31/12	169,291	103,240
Interest on Net Pension Obligation (NPO)	(53,986)	(142,604)
Adjustment to Net Pension Obligation	(98,807)	(261,002)
Annual Pension Cost (APC)	214,112	221,638
Employer Contributions	474,003	766,006
Increase (Decrease) in NPO	(259,891)	(544,368)
Net Pension Obligation (Asset) January 1, 2012	(1,349,638)	(3,565,100)
Net Pension Obligation (Asset) December 31, 2012	\$ (1,609,529)	\$ (4,109,468)

The negative net pension obligation is a result of the City over paying its required annual pension cost; the resulting net pension asset has been recorded in the Governmental Activities, Statement of Net Position.

Three Year Trend Information

Police Pension Fund:

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (Asset)
December 31, 2012	\$ 214,112	221%	\$ (1,609,529)
December 31, 2011	203,747	212%	(1,349,638)
December 31, 2010	319,050	151%	(1,120,449)

Firefighters Pension Fund:

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (Asset)
December 31, 2012	\$ 221,638	346%	\$ (4,109,468)
December 31, 2011	192,816	438%	(3,565,100)
December 31, 2010	336,546	213%	(2,912,862)

Schedule of Funding Progress

GASB 50 requires that the current funded status of the plan is shown, so that users of the financial statements can determine if the funding status is improving or worsening over time. These amounts are shown in thousands below:

Police Pension Fund:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
January 1, 2013	\$ 1,220	\$ 2,398	\$ 1,178	51%	\$ -	N/A
January 1, 2011	774	3,074	2,300	25%	-	N/A
January 1, 2009	569	4,784	4,215	12%	149	2829%

Fire Pension Fund:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
January 1, 2013	\$ 6,978	\$ 6,556	\$ (422)	106%	\$ -	N/A
January 1, 2011	6,491	7,895	1,404	82%	-	N/A
January 1, 2009	6,225	10,043	3,818	62%	-	N/A

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Six-year trend information is presented as required supplementary information following the Notes to the Financial Statements.

Actuarial assumptions are shown below:

	Police Pension	Fire Pension
Valuation Date	1/1/2013	1/1/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
	30 Year closed period	30 Year closed period as
Amortization Method	as of 1/1/2001	of 1/1/2001
Remaining Amortization Period	18 Years	18 Years
Asset Valuation Method	Fair Value	Fair Value
Actuarial Assumptions		
Investment Rate of Return	3.75%	3.75%
Projected Salary Increases	3.50%	3.50%
Inflation Rate	2.50%	2.50%
Cost of Living Adjustments	Varies*	Varies*

*Under the Police and Fire Pension fund requirements of state law, most adjustments are based on the change in salary for the rank of the members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150 and RCW 41.26.

Separate financial statements are not issued for the police and fire pension plan. The statement of net position and the statement of changes in fiduciary net position for the police and fire pension plans can be found in the Fiduciary Fund Section of these financial statements.

G. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description:

In addition to the pension benefits described in Note V.F.3, the City administers two single employer defined benefit plans covering postretirement healthcare and long term care in accordance with state statute to retired police and fire employees who are eligible under the Police Relief and Pension Fund and Firefighter's Pension Fund through Law Enforcement Officers & Fire Fighters Plan 1(LEOFF-1). The activity of the plan is reported in the City's Police and Fire Pension Trust Funds. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature. A separate audited GAAP-basis Postemployment benefit plan report is not available.

Membership:

Membership in this program includes Plan 1 participants of LEOFF who joined the system by September 30, 1977. Currently, 125 retirees meet those eligibility requirements. This is considered a closed group with no new members. There were no active employees who had not retired as of December 31, 2012.

Funding Policy:

The City reimburses 100 percent of the amount of validated claims for medical and hospitalization costs incurred by eligible retirees. The City pays for the retiree's monthly insurance premium and also picks up the balance owing after insurance and Medicare payments are made. The pension board performs an annual survey to determine the limit of optical and chiropractic care to be covered. The City also reimburses a monthly fixed amount equal to the Medicare premium for each retiree eligible for Medicare. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 of the RCW.

Under RCW law, medical, hospital, and nursing care are covered as long as a disability exists for any active fire fighter or police hired prior to March 1, 1970.

Employer contributions are financed on a pay-as-you-go basis. Expenditures for postretirement health in 2012 were \$1,683,020.

Annual OPEB costs and Net OPEB Obligation:

The city's annual other post employment benefit (OPEB) cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The city's annual OPEB cost for the current year and the related information for each plan are as follows:

	Police	Fire
Annual required contribution	\$ 1,080,668	\$ 1,660,869
Interest on net OPEB obligation	56,789	96,879
Adjustment to annual required contribution	(87,384)	(149,073)
Annual OPEB cost	1,050,073	1,608,675
Contributions made	(569,248)	(1,113,771)
Increase in net OPEB obligation	480,825	494,904
Net OPEB obligation - beginning of year	1,419,719	2,421,977
Net OPEB obligation - end of year	<u>\$ 1,900,544</u>	<u>\$ 2,916,881</u>

The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years for each were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB obligation
Police	December 31, 2012	\$ 1,050,073	54%	\$ 1,900,544
	December 31, 2011	1,061,545	56%	1,419,719
	December 31, 2010	886,133	63%	948,486
Fire	December 31, 2012	\$ 1,608,675	69%	\$ 2,916,881
	December 31, 2011	1,624,007	63%	2,421,977
	December 31, 2010	1,340,109	73%	1,828,416

Funding Status and Funding Progress:

The actuarial updates on the funding status is as follows:

Police:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
January 1, 2013	\$ -	\$ 17,048	\$ 17,048	0%	N/A	N/A
January 1, 2011	-	17,272	17,272	0%	N/A	N/A
January 1, 2009	-	14,518	14,518	0%	N/A	N/A

Fire:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
January 1, 2013	\$ -	\$ 27,794	\$ 27,794	0%	N/A	N/A
January 1, 2011	-	26,545	26,545	0%	N/A	N/A
January 1, 2009	-	21,587	21,587	0%	N/A	N/A

Actuarial Methods and Assumptions:

The actuarial assumptions used in the January 1, 2013 OPEB actuarial valuations include techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. In the January 1, 2013 actuarial valuation, the entry age normal cost method was used. The assumptions included a 3.75% investment rate of return, a medical inflation rate that ranges between 5.4-7.5% over the next 16 years, and a long-term care inflation rate of 4.75% for both plans. The plans unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2012 is twenty-four years.

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, service retirement, disability, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents the results of OPEB valuations as of December 31, 2012 and looking forward, the schedule of funding progress will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and the plan members to that point.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

H. POLLUTION REMEDIATION OBLIGATION

Dry cleaning solvent had been dumped down a catch basin on a regular basis which subsequently caused perchloroethylene (PCE) to leak into the aquifer at Water Station No.4. The City is using aeration towers to treat this ground water. The towers remove trace volatile organic compounds, and carbon dioxide which occurs naturally. The environmental liability is expected to cost \$420,000 over the next 20 years, with a current portion of \$21,000. This estimate is based on prior year actual costs, and is subject to changes in price, technology or changes in applicable laws and regulations.

I. PRIOR PERIOD ADJUSTMENTS

The City has recorded prior period adjustments (PPA), which includes:

Government-wide : Governmental Activities (not affecting the Fund Statements)

Capital asset corrections	\$ 190,925
Recording of revenue in correct period	626,636
Impact fee liability correction	(384,822)
	<u>\$ 432,739</u>

Government-wide : Governmental Funds

	General Fund	Consolidated Fire Fund	Transportation Capital	Non-Major Governmental Funds	Internal Service Funds	Total
Refunding of transfer in excess of project needs	\$979,546	\$ -	\$ (1,498,998)	\$ 286,593	\$ -	\$ (232,859)
Recording of revenue and expense transactions in correct fund	162,842	-	-	(28,262)	(920)	133,660
Refunding of indirect cost allocation expense from prior years	(31,808)	-	-	-	-	(31,808)
Recording of revenue and expenses in correct period	-	238,971	-	30,300	-	269,271
	<u>\$1,110,580</u>	<u>\$238,971</u>	<u>\$ (1,498,998)</u>	<u>\$ 288,631</u>	<u>\$ (920)</u>	<u>\$ 138,264</u>

Combined Government Wide Prior Period Adjustments \$ 571,003

Government-wide : Business Type Activities

	Water Sewer Fund	Non-Major Enterprise Funds	Total
Recording of revenue and expenses in correct period	\$ (829,456)	\$ (14,995)	\$ (844,451)
Correction to estimate of pollution remediation	(63,000)	-	(63,000)
Recording of revenue and expense transactions in correct fund	-	(181,311)	(181,311)
Capital asset corrections	100,421	225,439	325,860
	<u>\$ (792,035)</u>	<u>\$ 29,133</u>	<u>\$ (762,902)</u>

Component Units

	Downtown Redevelopment Authority	Vancouver Public Facilities District	Total
Interest Expense Correction	\$ (42,750)	\$ -	\$ (42,750)
Recording of revenue and expenses in correct period	-	(427,834)	(427,834)
	<u>\$ (42,750)</u>	<u>\$ (427,834)</u>	<u>\$ (470,584)</u>

J. SUBSEQUENT EVENTS

The Downtown Redevelopment Authority Board has approved actions to actively restructure, if market conditions allow, the Bonds and the various accrued deferrals with respect to the Conference Center. Those efforts are continuing. There are a number of parties whose cooperation and/or participation would be required with respect to such a restructuring, and cooperation and participation is being secured.

On January 2, 2009, Lehman Brothers Special Finance Inc. failed to tender for sale to the Downtown Redevelopment Authority the Qualified Securities pursuant to the terms of the Forward Purchase Agreement (FPA), and did not correct the issue in the Cure Period. Based on this, the Authority reinvested the investment balance held with the Trustee for 6-months in qualified investments, which matured on July 1, 2009, and was reinvested thereafter with maturities to coincide with the semi-annual interest and principal payments. The rate of return on the reinvestment was substantially below the 5.05%. The Authority pursued a claim with the Bankruptcy Court against Lehman Brothers Inc., and Lehman Brothers Special Finance Inc. for the difference between the fixed rate of 5.05% and the rate that a new Forward Purchase Agreement will generate. In April 2013, the Authority received a distribution in the amount of \$251,493 as a result of the bankruptcy claim. This amount included distributions made for the quarter and included a catch-up for prior quarters. If the Lehman bankruptcy estate receives additional funds, more distributions are possible.

The Vancouver Public Facilities District, a component unit, had excess expenditures over biennial appropriations for the year ending December 31, 2012. A supplemental budget to remedy this will be recorded in early.

CITY OF VANCOUVER

Required Supplementary Information

Police and Fire Pension Funds

December 31, 2012

GASB Statement No. 25 and 27

Schedule of Funding Progress

(in thousands)

Six year trend Information

Retirement System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Police Relief and Pension Fund	1/1/2013	\$ 1,220	\$ 2,398	\$ 1,178	51%	\$ -	N/A
	1/1/2011	774	3,074	2,300	25%	-	N/A
	1/1/2009	569	4,784	4,215	12%	-	N/A
	1/1/2007	498	3,973	3,475	13%	-	N/A
	1/1/2005	344	3,781	3,437	9%	-	N/A
	1/1/2003	468	3,760	3,292	12%	-	N/A
Fireman's Pension Fund	1/1/2013	\$ 6,978	\$ 6,556	\$ (422)	106%	\$ -	N/A
	1/1/2011	6,491	7,895	1,404	82%	-	N/A
	1/1/2009	6,225	10,043	3,818	62%	-	N/A
	1/1/2007	5,458	9,505	4,047	57%	-	N/A
	1/1/2005	5,620	9,224	3,604	61%	-	N/A
	1/1/2003	5,993	9,233	3,240	65%	-	N/A

* Information unavailable

GASB Statement No. 25

Schedule of Employer Contributions

Six year trend Information

Retirement System	Fiscal Year Ending	Actual **Employer Contribution	Police Auction Income / Fire Insurance Premiums	Annual Required Contribution (ARC)	Percentage of ARC Contributed
Police Relief and Pension Fund	12/31/2012	\$ 471,529	\$ 2,474	\$ 169,291	280%
	12/31/2011	431,680	1,256	169,291	256%
	12/31/2010	480,192	889	291,698	165%
	12/31/2009	377,246	2,124	291,698	130%
	12/31/2008	437,206	1,167	251,853	174%
	12/31/2007	416,758	1,992	251,853	166%
Fireman's Pension Fund	12/31/2012	\$ 609,258	\$ 156,748	\$ 103,240	742%
	12/31/2011	684,858	160,196	103,240	819%
	12/31/2010	555,028	160,133	264,222	271%
	12/31/2009	684,887	143,225	264,222	313%
	12/31/2008	860,815	151,037	293,278	345%
	12/31/2007	739,430	141,234	293,278	300%

** Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses.

Prior information used to determine funding requirements for Police Relief and Pension and Firefighters' Pension Funds do not meet the parameters for actuarial calculations for defined benefit pension plans and so historical data prior to 1997 is not shown. The City's plan is valued every two years..

CITY OF VANCOUVER

Required Supplementary Information

Police and Fire OPEB Pension Funds

December 31, 2012

Schedule of Funding Progress**(in thousands)***Six year trend **

Retirement System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Police Relief and Pension Fund	1/1/2013	\$ -	\$ 17,048	\$ 17,048	0%	N/A	N/A
	1/1/2011	-	17,272	17,272	0%	N/A	N/A
	1/1/2009	-	14,518	14,518	0%	N/A	N/A
	1/1/2007	-	9,734	9,734	0%	N/A	N/A
Fireman's Pension Fund	1/1/2013	\$ -	\$ 27,794	\$ 27,794	0%	N/A	N/A
	1/1/2011	-	26,545	26,545	0%	N/A	N/A
	1/1/2009	-	21,587	21,587	0%	N/A	N/A
	1/1/2007	-	16,244	16,244	0%	N/A	N/A

* This is the fourth year of OPEB implementation. The actuarial updates on this information is done on a biennial basis.

City of Vancouver
Notes to Required Supplementary Information
Police and Fire Pension Funds

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	1/1/2013	1/1/2013
Actuarial Cost Method	Entry age normal	Entry age normal
Amortization Method	30-year, closed as of 01/01/01	30-year, closed as of 01/01/01
Remaining Amortization Period	18 years	18 years
Asset Valuation method	Fair Value	Fair Value
Actuarial Assumptions:		
Investment rate of return	3.75%	3.75%
Projected Salary Increases	3.50%	3.50%
Includes Inflation at	2.50%	2.50%

*Under the Police and Fire Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of the members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

CITY OF VANCOUVER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Table 20
Page 1 of 2

Grantor/ Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Direct Federal Expenditures	Indirect Federal Expenditures	Total Federal Expenditures
Department of Agriculture:					
<i>Passed through Office of Superintendent of Public Instruction:</i>					
Child and Adult Care Food Program	10.558	06-07-0504		\$ 4,697	
Total Department of Agriculture:				4,697	\$ 4,697
Department of Housing and Urban Development:					
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-53-0013	\$ 178,024		
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-53-0013	952,497		
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-53-0013	188,237		
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-53-0013	72,728		
Community Development Block Grants/Entitlement Grants	14.218	Program Income	157,659		
Total CFDA 14.218			1,549,145		
<i>Passed through Department of Commerce:</i>					
CDBG/State's Program & Non-Entitlement Grants in Hawaii	14.228	08-F6401-024		7,473	
HOME Investment Partnerships Program	14.239	M-09-MC-53-0208	72,156		
HOME Investment Partnerships Program	14.239	M-10-MC-53-0208	23,662		
HOME Investment Partnerships Program	14.239	M-11-MC-53-0208	633,116		
HOME Investment Partnerships Program	14.239	M-12-MC-53-0208	42,659		
Total CFDA 14.239			771,594		
Community Development Block Grants_Brownfields Economic Development Initiative	14.246	B-06-BD-53-0011	425,038		
Community Development Block Grants_Section 108 Loan Guarantees	14.248	B-06-MC-53-0013	3,000		
Total Department of Housing and Urban Development:			2,748,777	7,473	2,756,250
Department of Justice:					
<i>Grants to Encourage Arrest Policies and Enforcement of Protection Orders</i>					
	16.590	2005-WE-AX-0028	101,609		
Public Safety Partnership & Community Policing Grants	16.710	2010-CS-WX-0015	71,838		
Congressionally Recommended Awards	16.753	2010-DD-BX-0508	400		
<i>Passed through Clark County:</i>					
Drug Court Discretionary Grant Program	16.585	2010-DC-BX-0097		11,779	
<i>Passed through Clark County:</i>					
Violence Against Women Formula Grant	16.588	F-11-31103-073		10,463	
<i>Passed through Clark County:</i>					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0618		60,919	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0198		17,088	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Program Income		787	
Total CFDA 16.738				78,795	
Total Department of Justice:			173,847	101,037	274,884
Department of Transportation:					
Airport Improvement Program	20.106	3-53-0139-008	31,779		
<i>Passed through Washington State Department of Transportation:</i>					
Highway Planning and Construction	20.205	STPD-TSCP-HLP-09WA9(003)		626,867	
Highway Planning and Construction	20.205	POMVIP-000S(230)		46,689	
Highway Planning and Construction	20.205	STPUL-4221(004)		2,838	
Highway Planning and Construction	20.205	STPH-000S(171)		288,231	
Highway Planning and Construction	20.205	CM-4401(006)		113,259	
Highway Planning and Construction	20.205	CM-1350(007)		14,524	
Highway Planning and Construction	20.205	CM-4371(012)		18,689	
Highway Planning and Construction	20.205	CM-9906(025)		82,828	
Highway Planning and Construction	20.205	CM-4242(023)		599	
Highway Planning and Construction	20.205	HSIP-000S(314)		159	
Highway Planning and Construction	20.205	STPE-4228(001)		41,282	
Highway Planning and Construction	20.205	HPP-4254(004)		9,028	
Highway Planning and Construction	20.205	STPUL-4421(003)		830,071	
Highway Planning and Construction	20.205	CM-4451(012)		842,059	
Highway Planning and Construction	20.205	STPUL-4266(002)		7,402	
Highway Planning and Construction	20.205	CM-1350(021)		18,351	
Highway Planning and Construction	20.205	STPUL-1350(017)		226	
Highway Planning and Construction	20.205	HSIP-4330(002)		8,523	
Highway Planning and Construction	20.205	CM-1350(013)		72,387	
Highway Planning and Construction	20.205	CM-1350(022)		21,041	
Total CFDA 20.205				3,045,054	
<i>Passed through Washington Association of Sheriffs & Police Chiefs:</i>					
State and Community Highway Safety	20.600	Traffic Safety Equipment Grant		1,598	
<i>Passed through State of Washington Traffic Safety Commission:</i>					
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	DUI Emphasis		4,819	
<i>Passed through State of Washington Traffic Safety Commission:</i>					
Safety Belt Performance Grants	20.609	Safety Belt Performance Grant		547	
Total Department of Transportation:			31,779	3,052,018	3,083,797
Department of Health and Human Services:					
<i>Passed through Oregon Health & Science University:</i>					
Occupational Safety and Health Program	93.262	AHPSM0020VPD		1,732	
Total Department of Health and Human Services:				1,732	1,732

CITY OF VANCOUVER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Table 20

Page 2 of 2

Department of Homeland Security:

Passed through Clark County Regional Services Agency:
Interoperable Emergency Communications Grant Program

97.001 E12-196 6,138

Passed through Clark County:

Non-Profit Security Program	97.008	UA09-0088	362,225
Non-Profit Security Program	97.008	UA09-0132	11,428
Non-Profit Security Program	97.008	UA09-0133	13,931
Non-Profit Security Program	97.008	UA09-0160	3,540
Non-Profit Security Program	97.008	UA09-0162	57,613
Non-Profit Security Program	97.008	UA10-0098	45,025
Non-Profit Security Program	97.008	UA10-0120	95,433
Non-Profit Security Program	97.008	UA10-170	3,056
Total CFDA 97.008			592,251

Passed through Clark Regional Emergency Services Agency:

Homeland Security Grant Program	97.067	E11-108	120,744
Homeland Security Grant Program	97.067	E12-246	25,557
Total CFDA 97.067			146,300

Passed through Portland Office of Emergency Management:
Metropolitan Medical Response System

97.071 09-181 30,256

Passed through Portland Office of Emergency Management:
State Homeland Security Program

97.071 04-031 B 6,459

Passed through Washington State Military Department:

Buffer Zone Protection Program (BZPP)	97.078	E11-276	48,156
Buffer Zone Protection Program (BZPP)	97.078	E12-206	16,658
Total CFDA 97.078			64,815

Assistance to Firefighters Grant

97.044 EMW-2010-FH-00862 1,100,680

Assistance to Firefighters Grant

97.044 EMW-2011-FO-08242 349,635

Total CFDA 97.044 1,450,315

Staffing for Adequate Fire and Emergency Response (SAFER) 97.083 EMW-2008-FF-00494 30,700

Total Department of Homeland Security: 1,481,015 846,219 2,327,233

Department of Energy:

ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)

81.128 DE-SC0003385 275,170

Passed through Department of Commerce

ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)

81.128 F10-52110-013 57,622

ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)

81.128 F10-52110-063 15,591

Passed through Clark County

ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)

81.128 DE-EE0000856 15,420

Total Department of Energy: 275,170 88,633 363,803

Department of Housing and Urban Development:

ARRA - CDBG ARRA Entitlement Grants (CDBG-R)

14.253 B-09-MY-53-0013 25,398

ARRA - Homelessness Prevention & Rapid Re-Housing Program 14.257 S-09-MY-53-0004 62,158

Total Department of Housing and Urban Development: 87,556 87,556

Department of Justice, Office of Community Oriented Policing Services (COPS)

ARRA - Public Safety Partnership & Community Policing Grants 16.710 2009-RJ-WX-0086 33,231

Total Department of Justice, Office of Community Oriented Policing Services (COPS) 33,231 33,231

Department of Justice:

ARRA - Edward Byrne Memorial Competitive Grant Program 16.808 2009-SC-B9-0139 605,679

Passed through Clark County

ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) 16.804 2009-SB-B9-1974 124,712

ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) 16.804 Program Income 812

Total CFDA 16.804 125,524

Total Department of Justice: 605,679 125,524 731,203

TOTAL FEDERAL EXPENDITURES \$ 9,664,387

Schedule of Federal Awards

This schedule contains information about expenditures of federal grant awards to help the reader understand the contributions the City receives from the Federal Government.

Schedule of Expenditures of Federal Awards (SEFA)

Table 20

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE/LOCAL FINANCIAL ASSISTANCE

NOTE 1 **BASIS OF ACCOUNTING**

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

NOTE 2 **PROGRAM COSTS**

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

NOTE 3 **REVOLVING LOAN - PROGRAM INCOME**

The City has a revolving loan program for low income housing. Under this federal grant, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.

NOTE 4 **FEDERAL LOANS**

The City was approved by the Department of Housing and Urban Development to receive a loan under the Community Development Block Grants (CDBG) - Section 108 Loan Guarantees program to be used in conjunction with the CDBG/Brownfields Economic Development Initiative (BEDI) grant. The amount listed loan includes proceeds received during the year. The liability for this loan is reported in the City's financial statements as a component of long-term debt.

NOTE 5 **AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009**

The City has received Federal awards made under the Recovery Act which have been identified separately on the Schedule of Expenditures of Federal Awards (SEFA). These awards are entered by CFDA number and have included the prefix "ARRA" to identify the name of the Federal program.

NOTE 6 **NONCASH AWARDS - EQUIPMENT**

The City received equipment and supplies that were purchased with federal Homeland Security funds by the City of Portland, Oregon. The amount reported on the schedule is the value of the property on the date it was received by the City and priced by the City of Portland, Oregon.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor
Chief of Staff
Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
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