



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**

**City of Spokane**

**Spokane County**

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

**Published September 25, 2017**

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**Office of the Washington State Auditor**  
**Pat McCarthy**

September 25, 2017

Mayor and City Council  
City of Spokane  
Spokane, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Spokane'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,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Spokane  
Spokane County  
January 1, 2016 through December 31, 2016**

### **SECTION I – SUMMARY OF AUDITOR’S RESULTS**

The results of our audit of the City of Spokane are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### **Financial Statements**

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### **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 deficiencies that we consider to be material weaknesses.

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

#### **Federal Awards**

##### **Internal Control over Major Programs:**

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified 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 in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.267	Continuum of Care Program
20.205	Highway Planning and Construction
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$843,787.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

See finding 2016-001.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2016-002, 2016-003 and 2016-004.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Spokane Spokane County January 1, 2016 through December 31, 2016

#### **2016-001 The City did not have adequate internal controls in place to ensure accurate reporting of its financial statements or the Schedule of Expenditures of Federal Awards.**

##### ***Background***

City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements are followed.

The City also must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report. Title 2 Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards requires a grantee to identify, in its accounts, all federal program awards received and expended. The City must report all federal awards expended on the SEFA each fiscal year.

The City continues to make improvements from prior years to ensure accurate reporting. However, our audit identified internal control weaknesses that adversely affected the City's ability to produce reliable financial statements.

##### ***Description of Condition***

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The City did not have a process to ensure sufficient research was performed to correctly and timely implement new GASB standards. GASB statement No. 72 *Fair Value Measurement and Application* affected accounting and financial reporting for investments and was not properly implemented.
- The City did not dedicate the necessary time and resources to properly report financial statement balances as required by existing GASB standards, including:

- Statement No. 39 - *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*
  - Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*
  - Statement No. 63 - *Financial Reporting of Deferred outflows of Resources Deferred Inflows of Resources and Net Position*
  - Statement No. 68 - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*
- The City did not have adequate controls in place to ensure the classification of cash and cash equivalents met the definition of short-term or highly liquid.
  - City controls intended to ensure the financial statements were prepared in accordance with GAAP did not include a process to ensure the collectability of housing loans reported as notes/contracts receivable.
  - City controls intended to ensure fund statement adjustments to full GAAP government-wide presentation did not include a specific process for property taxes which resulted in reporting errors.
  - Although the City has procedures to perform a review of the financial statements and required schedules, the review was not adequate to detect and correct errors before the audit.
  - The City did not have adequate processes in place to ensure that federally funded loan programs were properly reported on the SEFA.

### ***Cause of Condition***

The City continues to experience turnover in key financial statement preparation positions, which prevents the City from establishing and maintaining necessary controls to ensure financial statements are accurately prepared. The City's established controls for preparing and reviewing the financial statements were not effective at identifying errors.

The City did not have controls in place to ensure all pay requests were submitted to the Department of Ecology by the fiscal year's end to ensure all awards and eligible federal expenditures incurred during the period were reported on the SEFA. Additionally, there was turnover in key water fund accountant positions that prevented the City from establishing necessary controls to ensure that only federal funds are reported on the SEFA.

## *Effect of Condition*

Our audit identified the following errors in the financial statements and schedules provided for audit:

- While the original presentation of Note 1 of the Financial Statements disclosed that the City implemented GASB 72, none of the required elements were included in the related investment note disclosure.
- A blended component unit should be combined into the primary government reporting entity and included with governmental or business type activities in accordance with GASB 39. The City inaccurately reported a blended component unit as an agency fund in the fiduciary statements, understating net position of the primary government by at least \$2.4 million.
- Governments should estimate and report pollution remediation liabilities once an obligating event occurs, in accordance with GASB 49. While the City identified the obligating event and disclosed it in the Notes to the Financial Statements, no liability was recorded until identified during the audit, understating liabilities by at least \$1.6 million.
- Governments should report restricted assets reduced by related liabilities and deferred inflows as the restricted component of net position in accordance with GASB 63. The City's restricted net position calculation did not properly address unspent bond proceeds, overstating restricted net position in governmental activities and Water/Sewer Fund by \$55 million and \$169 million respectively.
- Governments should only report the net change in proportional share for self-administered plans, such as the Spokane Employees Retirement Plan (SERS), in accordance with GASB 68 and clarification from the American Institute of Certified Public Accountants (AICPA). The City did not properly report pension information provided by its actuary, overstating deferred inflows and outflows by at least \$14 million.
- According to its policy, the City invests all cash not necessary for immediate needs. Investments that did not meet the definition of short term or highly liquid were not reported as investments, overstating cash and cash equivalents by more than \$57 million.
- Housing loan program notes and contracts receivables were overstated by about \$13.6 million because no estimate for uncollectable accounts was included in the financial statements.

- Governments should record property tax revenues in the year levied. Fund statement adjustments to the full GAAP government-wide presentation understated property tax revenues on the Statement of Activities by at least \$1.2 million.
- Capitalization Grants for Clean Water State Revolving Funds program (CFDA 66.458) grant expenditures were understated by more than \$4.5 million on the SEFA.
- Capitalization Grants for Drinking Water State Revolving Funds program (CFDA 66.468) grant expenditures were overstated by more than \$1 million.

Other less significant errors were also identified in the financial statements provided for audit. All material misstatements noted above were corrected.

### ***Recommendations***

We recommend City management continue to strengthen internal controls over financial statement and SEFA reporting by:

- Developing a process to ensure sufficient research is performed to correctly and promptly implement new GASB standards
- Conducting an effective, independent financial statement review that ensures the statements and footnotes are prepared in accordance with all GASB standards and GAAP reporting principles.
- Properly training employees responsible for financial statement preparation to use City developed spreadsheets and tools
- Ensuring fund accountants responsible for providing SEFA reporting information properly account for all loan program expenditures

### ***City's Response***

*The City acknowledges weaknesses in its internal control over accounting and financial statement preparation, however, the City does not agree with the State Auditor's determination of a material weakness as several of the issues noted by SAO were related to the classification of line items that had no financial impact on the statements. Items 4-6 below were reviewed by SAO during the 2015 audit and no corrective actions were noted.*

*We extend our appreciation to the State Auditor's Office for assisting the City in identifying deficiencies in our procedures. All misstatements noted have been corrected.*

*In 2016 the City fully implemented CAFR Online software which significantly reduced human errors both in allocation calculations and those used to properly classify expenditures in the government-wide presentation. Along with the CAFR Online process, a new Government Wide Conversion Worksheet has been prepared to allow the reviewer to see the flow of expenses from one category to another when an allocation is made across functions. The City is actively taking steps on a department by department basis to ensure timely reconciliations and interim review of financial data. It is our position that this will improve the accuracy of financial reporting and disclosure at year end.*

*In 2017, the City hired a new Chief Accountant who is actively taking steps to improve year end processes and internal controls. For example, an interactive tool to manage and meet deadlines throughout the year has been implemented. It is our expectation that this will expedite the year-end financial statement preparation process and provide additional time to perform a thorough internal review prior to submission.*

*The items noted above have been separately addressed as follows:*

- 1. The City continues to strive for excellence in financial reporting and will obtain training for key financial statement preparation positions. These positions will be trained to identify and research the implementation of new GASB Standards and GAAP principles to ensure all required elements are included in each disclosure.*
- 2. The Transportation Benefit District was identified as a blended component unit but was reported as an Agency Fund and not actually blended with the primary government as directed by GASB 39. The City has implemented a decision matrix to help identify component units and ensure they are disclosed and properly reported along with the primary government as directed.*
- 3. The City properly identified and disclosed an obligating event for pollution remediation. However, it failed to record the liability in accordance with GASB 49. The City will provide staff with adequate training to ensure proper recording and disclosure of new GASB Standards.*
- 4. The City had previously developed a calculation methodology to determine restricted net position. The original calculation did not take into consideration that unspent bond proceeds are already restricted in nature through their inclusion in the Liabilities section of the financial statements. This was a classification change only which had no financial impact on the statements. The calculation methodology has been updated to prevent this type of reporting error in the future.*
- 5. The City fully implemented GASB 68 in 2015 which reports the net change in proportional share for self-administered pension plans. The information was*

*presented showing the individual components instead of only reflecting the net result. This was a classification change only which had no financial impact on the statements. The City will present the net change in future years as prepared by the actuary.*

- 6. The City's policy on cash and cash investments is to invest all cash not necessary for immediate needs. As these investments can be liquidated at any time, some were included as cash and cash equivalents. Pursuant to GASB 9, to qualify as cash and cash equivalents, an item must meet the following criteria: must be readily convertible to known amounts of cash **and** must mature within three months of acquisition. In order to be in compliance with GASB 9, the City re-classified these funds to equity in pooled investments thus only reporting cash on hand, or on deposit and in restricted accounts, as cash and cash equivalents. This was a classification change only which had no financial impact on the statements.*
- 7. The City will also evaluate the collectability of housing loans and record an allowance for uncollectible accounts each year to properly ensure the City's financial statements are prepared in accordance with GAAP.*
- 8. The City recognizes Fund statement adjustments to the full GAAP government-wide presentation and will record property tax revenues in the year levied.*
- 9. The City has actively taken steps to improve its processes related to federally funded loan programs reported on the SEFA. Additional measures of internal controls have been put into place including the development of master files accessible by both programmatic and accounting staff. This will help to ensure clear and regular communication of funding information by project, and assist with necessary coordination between departments to regularly assess and monitor expenditures. Additional measures have also been implemented to ensure that loan payment requests are completed in a timely manner to ensure all federal loan costs are properly recognized and reported on the SEFA appropriately.*

*Each of the items noted above along with other items discussed throughout the audit will become part of a year-end review in preparing the Government Wide financial statements.*

### ***Auditor's Remarks***

We thank the City for its cooperation and assistance during the audit. Based on our evaluation of the internal control deficiencies identified, we determined that there was a reasonable possibility that a material misstatement could occur and not be corrected which meets the definition of *material weakness*. We appreciate the City's commitment to resolve this finding. We will review the corrective action taken during our next regular audit.



## ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Controls Related Matter Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200.502 *Determining Federal awards expended*, provides the basis for determining when federal awards expended.

*Office of Management and Budget Circular A-133, Environmental Protection Agency (EPA) Code of Federal Domestic Assistance (CFDA) 66.458 Capitalization Grants For Clean Water State Revolving Funds (CWSFR)* provides specific guidance on when subrecipients report project expenditures on the Schedule of Expenditures of Federal Awards (SEFA) for this federal program.



## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Spokane Spokane County January 1, 2016 through December 31, 2016

#### **2016-002 The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	20.205 Highway Planning and Construction
<b>Federal Grantor Name:</b>	U.S. Department of Transportation
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	WA State Department of Transportation
<b>Pass-through Award/Contract Number:</b>	Various
<b>Questioned Cost Amount:</b>	\$0

#### *Description of Condition*

During 2016, the City spent \$5,736,131 in federal grant funds in more than 20 projects awarded through the Washington State Department of Transportation.

Federal regulations prohibit grant recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The City is required to verify that all subcontractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. The verification may be accomplished by obtaining a written certification or inserting a clause into the contract. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City is responsible for determining the suspension and debarment status for primary contractors. A primary contractor is required to check the status of any covered transactions it enters into with a subcontractor. The City is required to inform primary contractors of this responsibility.

The City awarded four professional services contracts of \$25,000 or more during fiscal year 2016 that did not include a written certification, an inserted contract clause or EPLS review to verify that the contractors were not suspended or debarred before the City entered into the contract.

We consider this deficiency in internal controls to be a material weakness, which led to material noncompliance. This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

The City was aware of this requirement to verify the suspension and debarment status of its contractors but did not think the requirement applied to personal or professional service contracts.

### ***Effect of Condition and Questioned Costs***

The City paid the four contractors \$155,758 with federal funds under the Highway Planning and Construction program in fiscal year 2016 and did not verify that the contractors were not suspended or debarred. Any payments to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We were able to verify that the contractors were not suspended or debarred on the U.S. General Services Administration's award management website, [www.sam.gov](http://www.sam.gov). Therefore, we are not questioning costs for the payments.

### ***Recommendations***

We recommend the City establish and follow internal controls to ensure compliance with suspension and debarment requirements.

### ***City's Response***

*The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with U.S. Department of Transportation funding.*

### ***Auditor's Remarks***

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

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.516 Audit findings, establishes reporting requirements for audit findings, and requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Spokane Spokane County January 1, 2016 through December 31, 2016

#### **2016-003 The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	66.458 Capitalization Grants for Clean Water State Revolving Funds
<b>Federal Grantor Name:</b>	Environmental Protection Agency
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Washington State Department of Ecology
<b>Pass-through Award/Contract Number:</b>	L1300014, L1300020, L140007, L1400015, and WQC-2015-Spokane- 00025
<b>Questioned Cost Amount:</b>	\$0

#### ***Description of Condition***

During fiscal year 2016, the City spent \$9,098,037 of federal loan funds in its Clean Water State Revolving Fund program. This program is intended to construct waste water treatment facilities that meet the Clean Water Act requirements, protect estuaries and provide continuing financing sources to maintain water quality. The City was awarded the funds through 15 loans for the City's clean water projects.

Federal regulations prohibit loan recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The City is required to verify that all subcontractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. The verification may be accomplished by obtaining a written certification or inserting a clause into the contract. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City is responsible for determining the suspension and debarment status for primary contractors. The primary contractors are required to check the status of

any covered transactions they enter into with a subcontractor. The City is required to inform primary contractors of this responsibility.

The City awarded six contracts of \$25,000 or more during fiscal year 2016 that did not include a written certification, an inserted contract clause or EPLS review to verify that the contractors were not suspended or debarred before the City entered into the contract. Additionally, these contracts did not include language to inform the primary contractor of its responsibility to check the status of subcontractors. The City awarded the contracts to one construction contractor and five professional service companies. We subsequently reviewed EPLS and found the contractors were not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness, which led to material noncompliance. This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

The City was aware of this requirement to verify the suspension and debarment status of its contractors, but did not think the requirement applied to the five personal and professional service contracts. Additionally, the City did not verify suspension and debarment status for one construction contractor or include language to inform the primary contractor of its responsibility to verify suspension and debarment status of subcontractors because it thought the contract would be state funded rather than federally funded.

### ***Effect of Condition and Questioned Costs***

The City paid the six contractors \$437,658 under five of its Clean Water loans in fiscal year 2016 and did not verify that the contractors were not suspended or debarred. Any payments to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We were able to verify that the contractors were not suspended or debarred on the U.S. General Services Administration's award management website, [www.sam.gov](http://www.sam.gov). Therefore, we are not questioning costs for the payments.

### ***Recommendation***

We recommend the City establish and follow internal controls to ensure compliance with suspension and debarment requirements.

### ***City's Response***

*The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the*

*federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with Clean Water State Revolving Fund funding.*

### ***Auditor's Remarks***

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

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.303, Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.516, Audit finding, establishes reporting requirements for audit findings, and requirements for management of Federal awards to non-Federal entities.

Title 2 U.S. Code of Federal Regulations (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Spokane Spokane County January 1, 2016 through December 31, 2016

#### **2016-004 The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	66.468 Capitalization Grants for Drinking Water State Revolving Funds
<b>Federal Grantor Name:</b>	Environmental Protection Agency
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	WA State Public Works Board
<b>Pass-through Award/Contract Number:</b>	DM13-952-123
<b>Questioned Cost Amount:</b>	\$0

#### ***Description of Condition***

During 2016, the City spent \$1,686,187 in federal loan funds. This program is intended to help public water systems finance the infrastructure costs needed to achieve and maintain compliance with Safe Water Drinking Act requirements. The City was awarded the funds through a loan used for community drinking water infrastructure projects.

Federal regulations prohibit loan recipients from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. The City is required to verify that all subcontractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. The verification may be accomplished by obtaining a written certification or inserting a clause into the contract. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City is responsible for determining the suspension and debarment status for primary contractors. The primary contractors are required to check the status of

any covered transactions they enter into with a subcontractor. The City is required to inform primary contractors of this responsibility.

The City awarded two professional services contracts of \$25,000 or more during fiscal year 2016 that did not include a written certification, an inserted contract clause or EPLS review to verify that the contractors were not suspended or debarred before the City entered into the contract. Additionally, the contracts did not include language to inform the primary contractor of its responsibility to check the status of subcontractors.

We consider this deficiency in internal controls to be a material weakness, which led to material noncompliance. This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

The City was aware of this requirement to verify the suspension and debarment status of its contractors but did not think the requirement applied to personal or professional service contracts.

### ***Effect of Condition and Questioned Costs***

The City paid the two contractors \$216,741 with federal drinking water loan funds in fiscal year 2016 and did not verify that the contractors were not suspended or debarred. Any payments to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We were able to verify that the contractors were not suspended or debarred on the U.S. General Services Administration's award management website, [www.sam.gov](http://www.sam.gov). Therefore, we are not questioning costs for the payments.

### ***Recommendations***

We recommend the City establish and follow internal controls to ensure compliance with suspension and debarment requirements.

### ***City's Response***

*The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with Drinking Water State Revolving Fund funding.*



### ***Auditor's Remarks***

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

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.516 Audit findings, establishes reporting requirements for audit findings, and requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### City of Spokane Spokane County January 1, 2016 through December 31, 2016

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

<b>Audit Period:</b> January 1, 2015 through December 31, 2015	<b>Report Ref. No.:</b> 1017591	<b>Finding Ref. No.:</b> 2015-001
<b>Finding Caption:</b> The City did not have adequate internal controls in place to ensure accurate reporting of its financial statements.		
<b>Background:</b> Our audit identified deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency. The City did not dedicate the necessary time and resources to accurately adjust fund financial statements to government-wide presentation as required by GASB Statement No. 34 or to properly report net position balances as required by GASB Statement No. 63.		
<b>Status of Corrective Action:</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 20%;"> <input type="checkbox"/> Fully Corrected         </div> <div style="width: 20%;"> <input checked="" type="checkbox"/> Partially Corrected         </div> <div style="width: 20%;"> <input type="checkbox"/> Not Corrected         </div> <div style="width: 20%;"> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <i>The City has taken the necessary action to improve its financial reporting and accurately adjust fund financial statements to the government-wide presentation as required by GASB Statement No. 34. In 2015 the City purchased a CAFR Online tool that was fully implemented in 2016. CAFR Online uses a mapping process to properly classify each expense to the proper functions per GASB Statement No. 34 to reduce risk of human error in allocations and calculations of expenses. Along with the CAFR Online process a new Government Wide Conversion Worksheet is prepared to allow the reviewer to see the flow of expenses from one category to another when an allocation is made across the functions. The City has also had a change in practice and no longer accrues unearned revenue to long-term loan proceeds thus eliminating the overstatement of Long-term debt. Only actual loan proceeds received are recorded as Long-term debt thus reflecting the balance accurately.</i>  <i>The City continues to improve the reporting of its net position balances as required by GASB Statement No 63 by implementing new calculation worksheets to reduce the instance of human</i>		

*error. The City has also received guidance from the State Auditor's Office in regards to the proper calculation and presentation of net position balances and the City will continue to follow this guidance.*

**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 Spokane  
Spokane County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Spokane  
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 28, 2017. As discussed in Note 1 to the financial statements, during the year ended December 31, 2016, the City implemented Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures* and Statement No. 72, *Fair Value Measurement and Application*.

Our report includes a reference to other auditors who audited the financial statements of the Spokane Employees Retirement System (SERS), a Pension and Other Employee Benefit fund of the City, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of SERS were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with SERS.

## 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be a material weakness.

## 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*.

## CITY'S RESPONSE TO FINDINGS

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

August 28, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Spokane  
Spokane County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Spokane  
Spokane, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Spokane, Spokane County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-002, 2016-003 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

### **City's Response to Findings**

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award 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.

## **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 the Uniform Guidance, 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 identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-002, 2016-003 and 2016-004 to be material weaknesses.

### **City's Response to Findings**

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award 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 the Uniform Guidance. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

August 28, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Spokane Spokane County January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Spokane  
Spokane, Washington

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 35.

### **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 Spokane Employees Retirement System (SERS), which represents 50 percent of the assets, net position and 18 percent of additions of the aggregate remaining fund information. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SERS, 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 SERS 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 2016, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures* and Statement No. 72, *Fair Value Measurement and Application*. 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 37 through 50, budgetary comparison information on page 141, pension trust fund information and information on post-employment

benefits on pages 142 through 151 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

The Schedule for General Fund Accounts Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance and Schedule of Revenues, Expenditures and Changes in Fund Balance Budget to Actual for each fund included in the General Fund Accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

August 28, 2017

## FINANCIAL SECTION

**City of Spokane  
Spokane County  
January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

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

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

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

Statement of Net Position – Proprietary Funds – 2016

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

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – Fiduciary Funds – 2016

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– General Fund Accounts – 2016

Schedule of Net Pension Liability – Employee's Retirement System (SERS),  
Firefighters' Pension System and Police Pension System – 2016

Schedule of City's Proportionate Share of the Net Pension Liability (Asset) – LEOFF 1  
and LEOFF 2 – 2016

Schedule of Employer Contributions – Employees' Retirement System (SERS),  
Firefighters' Pension System and Police Pension System – 2016

Schedule of Employer Contributions – LEOFF 1 and LEOFF 2 – 2016

Other Postemployment Benefits – Schedule of Employer Contributions – Firefighters’ Pension System and Police Pension System – 2016  
Other Postemployment Benefits – Schedule of Funding Progress – Firefighters’ Pension System and Police Pension System – 2016  
Schedule of Investment Returns – Spokane Employees Retirement System (SERS) – 2016  
Notes to Required Supplementary Information – 2016

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2016  
Notes to the Schedule of Expenditures of Federal Awards – 2016  
Schedule for General Fund Accounts – Balance Sheet – 2016  
Schedule of General Fund Accounts – Statement of Revenues, Expenditures and Changes in Fund Balance – 2016  
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – each fund included in the General Fund Accounts – 2016



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Spokane, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2016. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

### Financial Highlights

- The City's assets exceeded its liabilities by \$2.1 billion (net position) for the fiscal year reported.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$2.0 billion includes property, equipment and infrastructure, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$66.1 million is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$14.9 million represents the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds reported a total ending fund balance of \$189.4 million this year, a decrease of \$16.5 million from the prior year with the majority of the decrease due to an increase in allowance for uncollectible accounts associated with forgivable loans. Also related to the decrease is a reduction in the amount of bond proceeds restricted for capital projects underway, as those funds are being spent on capital projects. Revenues increased by \$7.4 million overall. Tax revenue increased by \$3.8 million. Investment earnings were reduced by \$10.4 million due to a large reduction in the market valuation of securities held in the investment portfolio. Intergovernmental revenue, licenses and permits, charges for service, fines and miscellaneous revenues increased by \$14 million. Other financing sources decreased by \$70.0 million. This last category of funding, which includes bond proceeds, sale of assets, and transfers in, contains revenues that are often not normal ongoing revenues, but rather occur only as necessary in any particular year. In 2015, this amount reflected the activities of the \$60 million park bond.

Taxes	\$3.8 million
Licenses & Permits	\$0.3 million
Intergovernmental	\$2.0 million
Charges for Service	\$6.4 million
Fines & Forfeitures	\$2.9 million
Miscellaneous	\$2.4 million
Investment earnings	\$(-10.4) million
Other Financing Sources	\$(-70.0) million

- At the end of the current fiscal year, the fund balance for the General Fund totaled \$39.0 million, excluding the nonspendable and restricted categories, which is 24% of General Fund expenditures excluding transfers.
- Overall, the City maintained its strong financial position in 2016, and is continuing to maintain a stable financial outlook, despite ongoing budgetary pressures related to the slow economic recovery.

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

## Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

### Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

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

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

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

### Fund Financial Statements

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

The City has three kinds of funds:

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

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

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

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

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

**Fiduciary funds** include three single-employer defined benefit pension plans for City employees as well as various agency funds. The City reports these funds however they are not available for City use.

### Notes To The Basic Financial Statements

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

### Financial Analysis of the City as a Whole

Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City’s net position at fiscal year-end is \$2,116.3 million as shown below.

	Governmental Activities		Business-Type Activities		Total	
Summary of Net Position (in thousands)	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	265,483	300,000	372,612	365,369	638,095	665,369
Capital assets	1,537,904	1,534,030	697,726	672,682	2,235,630	2,206,712
Total assets	1,803,387	1,834,030	1,070,338	1,038,051	2,873,725	2,872,081
DEFERRED OUTFLOWS	31,977	21,836	19,041	12,671	51,018	34,507
Total assets + deferred outflows	1,835,364	1,855,866	1,089,379	1,050,722	2,924,743	2,906,588
LIABILITIES						
Current liabilities	22,450	19,601	11,708	15,406	34,158	35,007
Long term liabilities	404,589	397,738	356,221	330,753	760,810	728,491
Total liabilities	427,039	417,339	367,929	346,159	794,968	763,498
DEFERRED INFLOWS	4,471	17,888	8,974	1,834	13,445	19,722
Total liabilities + deferred inflows	431,510	435,227	376,903	347,993	808,413	783,220
NET POSITION						
Net investment in capital assets	1,410,134	1,402,475	625,227	638,845	2,035,361	2,041,320
Restricted	66,069	138,154	-	198,484	66,069	336,638
Unrestricted	(72,348)	(119,990)	87,249	(134,601)	14,901	(254,591)
Total net position	1,403,855	1,420,639	712,476	702,728	2,116,331	2,123,367

The City continues to maintain a healthy current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 11.8 and 31.8 for business type activities. For the City overall, the current ratio is 18.7. We consider these ratios to be very strong.

### Governmental Activities

Net position decreased by \$16.8 million for governmental activities and is primarily attributable to the recognition of an allowance for uncollectible accounts related to HUD forgivable loans and the reduction in market valuation of city investments due to declining bond markets because of rising interest rates right near the end of the 2016 calendar year. This market value adjustment in city investments was recorded as an unrealized loss, which will likely be removed in future years and not actually be realized when these investments mature, because the city has always had a policy of holding its investments to maturity.

### Business-Type Activities

The \$9.7 million increase in business activities' net position is primarily attributable to increased revenues generated by the city's enterprise funds, especially in the sewer/water utility.

It should be noted that 100.5% of the governmental activities' net position is related to the net investment in capital assets. The City uses these capital assets to provide services to its citizens. With business-type activities, the City has committed 87.8% of its net position on capital. Capital assets in the business-type activities primarily provide utility services, but they also generate revenues for these funds. The net investment in capital assets makes up 96.2% of the City's total net position.

The following page provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
Change in Net Position (in thousands)	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program revenues						
Charges for services	39,232	38,020	206,592	195,425	245,824	233,445
Operating grants and contributions	12,355	11,603	143	100	12,498	11,703
Capital grants and contributions	10,281	8,395	8,982	9,553	19,263	17,948
General revenues						
Taxes	199,491	194,525	-	-	199,491	194,525
Disposition of fixed assets	-	-	-	-	-	-
Interest and investment Earnings	(1,033)	6,335	264	1,259	(769)	7,594
<b>Total revenues</b>	<b>260,326</b>	<b>258,878</b>	<b>215,981</b>	<b>206,337</b>	<b>476,307</b>	<b>465,215</b>
<b>EXPENSES</b>						
General government	(29,485)	(29,337)	-	-	(29,485)	(29,337)
Judicial	(4,718)	(4,288)	-	-	(4,718)	(4,288)
Public safety	(121,662)	(116,943)	-	-	(121,662)	(116,943)
Transportation	(48,962)	(53,900)	-	-	(48,962)	(53,900)
Economic environment	(12,696)	(11,449)	-	-	(12,696)	(11,449)
Social services	(9,563)	(8,806)	-	-	(9,563)	(8,806)
Culture and recreation	(31,588)	(31,333)	-	-	(31,588)	(31,333)
Interest on long term debt	(7,938)	(8,876)	-	-	(7,938)	(8,876)
Water/Sewer	-	-	(119,550)	(113,587)	(119,550)	(113,587)
Solid Waste	-	-	(75,372)	(68,143)	(75,372)	(68,143)
Other business activities	-	-	(10,825)	(9,897)	(10,825)	(9,897)
<b>Total expenses</b>	<b>(266,612)</b>	<b>(264,932)</b>	<b>(205,747)</b>	<b>(191,627)</b>	<b>(472,359)</b>	<b>(456,559)</b>

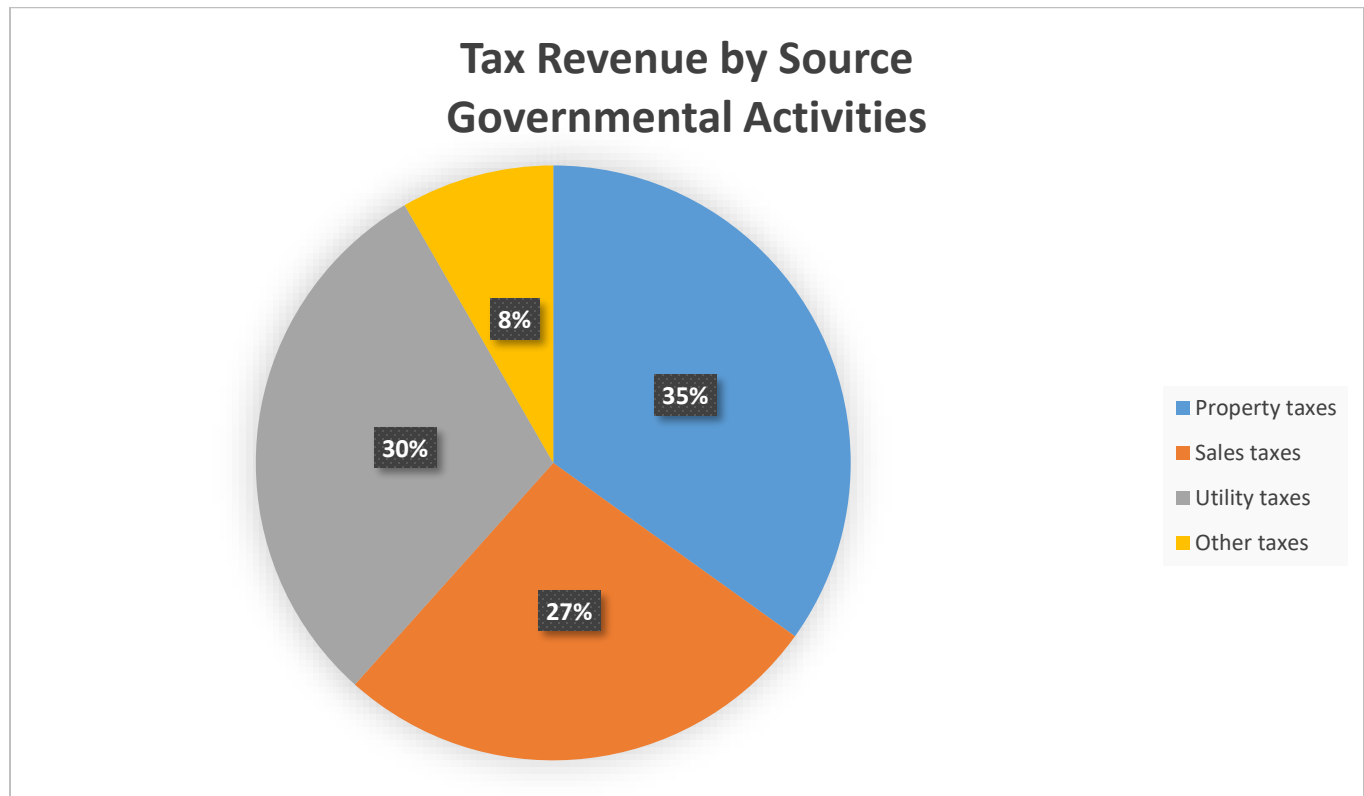
Table continued from previous page

<b>Excess (deficiency) of revenues over expenses before contributions &amp; transfers</b>	(6,286)	(6,054)	10,234	14,710	3,948	8,656
Transfers	62	7,154	(62)	(7,154)	-	-
<b>Increase (decrease) in net position</b>	(6,224)	1,100	10,172	7,556	3,948	8,656
Prior period adjustment	(10,560)	(245)	(424)	(9)	(10,984)	(254)
Change in accounting principle (GASB 68)	-	(82,487)	-	(69,394)	-	(151,881)
Net Position-January 1	1,420,639	1,502,271	702,728	764,575	2,123,367	2,266,846
Net Position-December 31	1,403,855	1,420,639	712,476	702,728	2,116,331	2,123,367

## GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations—more than 77% of the governmental activities revenue is derived from taxes. Charges for services represented 15% of these revenues, grants and contributions represented 9%.

A breakdown of tax revenue is shown below.

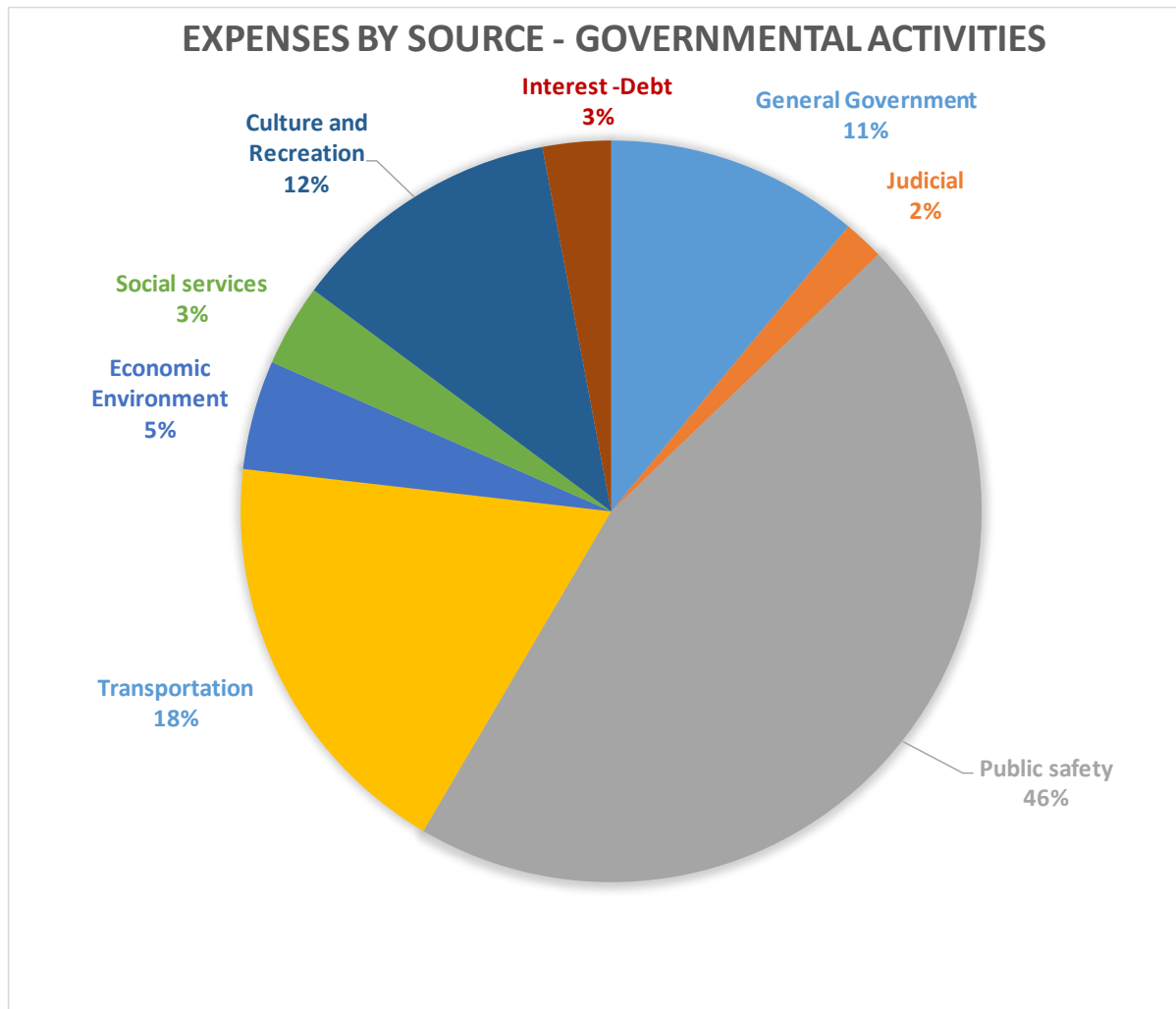


For governmental activities, program revenues cover approximately 23% of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues cover 77% of the governmental

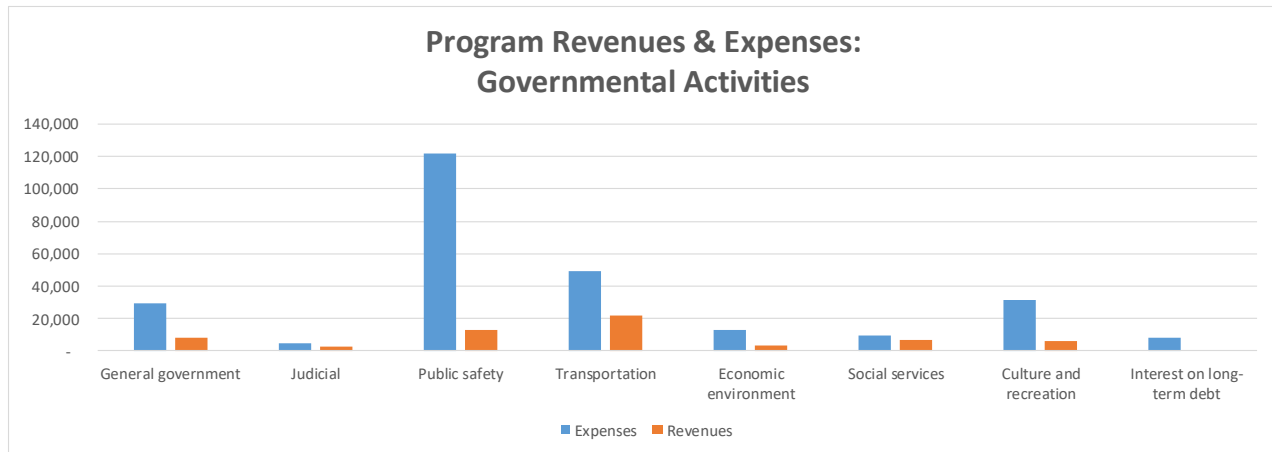
activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

### GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety continues to be a major priority of the City followed by transportation (streets) and culture and recreation (parks and libraries). At year-end, the allocation by program function is as follows:



The following chart presents the revenues and expenses of each of the City's programs. This net cost illustrates the financial burden that is placed on the City's taxpayers by each of these functions.



Program revenues did not cover the program expenses in any function in 2016 or in any year prior to 2016, as these expenditures by the city benefit all city residents and businesses.

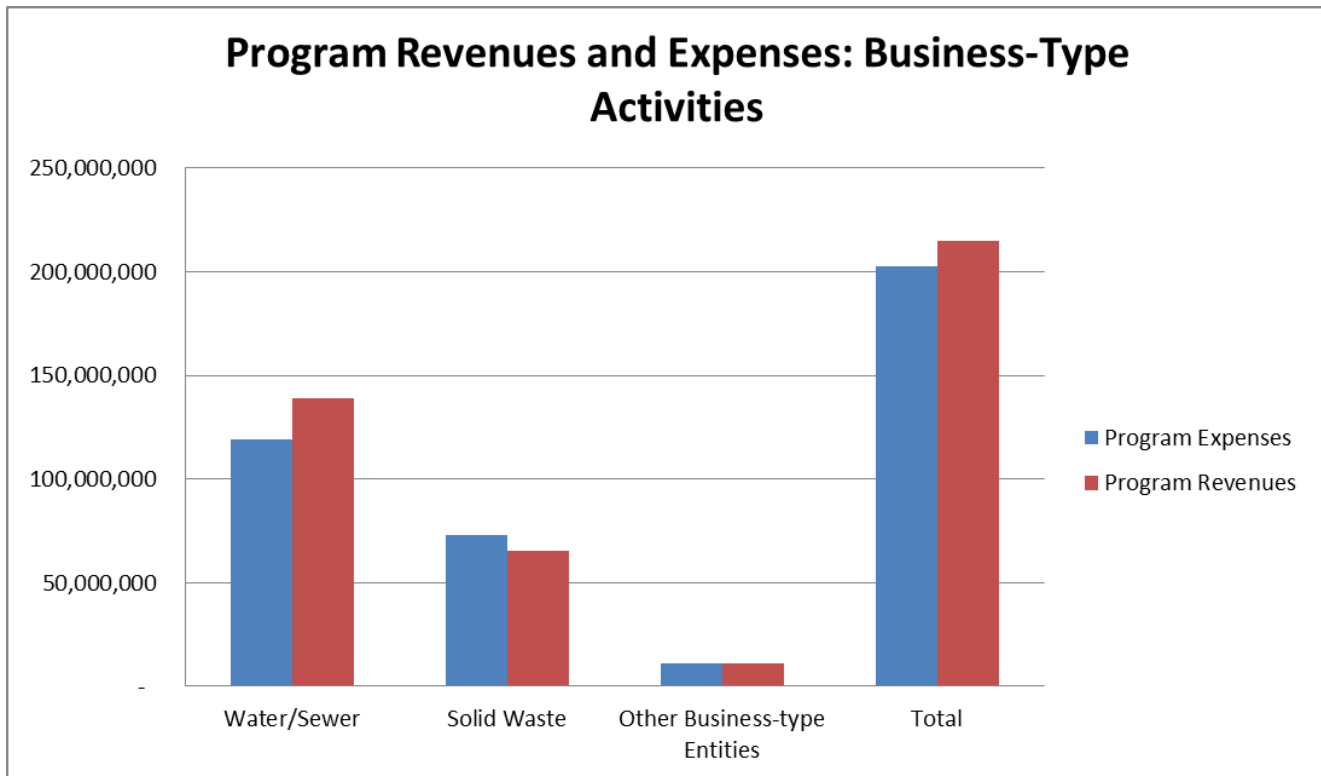
### **BUSINESS-TYPE ACTIVITIES Revenues vs. Costs**

For all enterprise funds, the City reports a current ratio of 11.43, which is a healthy ratio. The business-type activities report capitalized assets of \$697.7 million, which provide a variety of services to the citizens of Spokane as well as some populations outside the City limits.

The business-type activities report \$75.7 million in unrestricted net position, which provide these funds with adequate resources to maintain service levels and invest in future infrastructure requirements.

The operating revenues for the City's four enterprise funds increased by \$11.1 million or an increase of 5.74% over the prior year while operating expenses increased by \$14.8 million or 8.10% over 2015. As a result, net operating income was \$6.1 million compared to \$9.8 million in 2015. All enterprise funds except the Water/Sewer fund experienced net losses in 2016.

The chart below presents the revenues and expenses of each of the City's business-type activities. This net cost illustrates whether revenues are sufficient to meet current expenses.



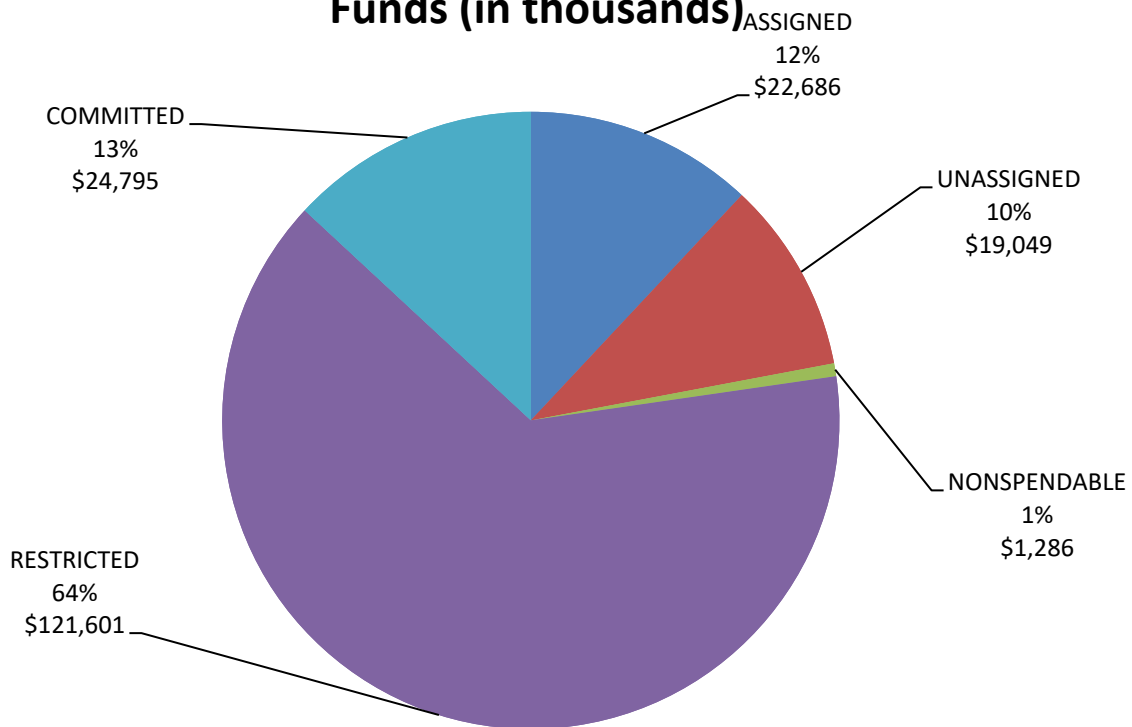
## Financial Analysis of the City's Funds

### Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balance of \$189.4 million. Of this total, \$22.7 million is assigned and \$19.0 million is unassigned. This unassigned amount represents approximately 10% of the total fund balance, and this constitutes a fund balance that is accessible to meet the City's needs. The remainder of the governmental funds' fund balance includes \$1.3 million "not in spendable form" for items that are not expected to be converted to near-term cash such as internal loans; \$121.6 million restricted by external parties, including grantors and creditors, and \$24.8 million committed by the City's elected officials for specific purposes.



## Breakdown of 2016 Fund Balance: Governmental Funds (in thousands)



### Major Governmental Funds

The **General Fund** is the City's primary operating fund and the largest source of day-to-day service delivery. Pursuant to the implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City has combined several special revenue funds with the general fund for financial reporting purposes. A schedule of the funds included in the General Fund information is included as a supplemental schedule. The fund balance of the General Fund decreased by \$0.3 million in 2016.

Committed, assigned and unassigned fund balance in the General Fund was \$39.0 million, which as a percentage of expenditures was 24% of annual operations, compared with 25% at the end of 2015. The General Fund reserves are still considered adequate, and provide the City's management with the ability to effectively manage the economic slowdown and budgetary challenges that are facing many businesses and governments at this time. During the strong economic years in the middle of the previous decade, the City's management and elected officials committed to building a robust reserve to ensure the long-term financial health of the General Fund, and the fund balance at the end of 2016 reflects the results of this commitment. The steps taken to achieve this result and how the reserve has been managed during the current economic situation are discussed in the *Budgetary Highlights* section of this analysis.

### The Proprietary Funds

The City reports four primary enterprise funds, two of which are considered major funds. These two funds provide the utility services of water/sewer and solid waste to the citizens of Spokane. The City also maintains ten internal service funds.

The **Water/Sewer Fund** - The water/sewer fund reports net position of \$625.7 million, with a \$546.0 million net investment in capital assets (i.e., the book value of the capital assets less related debt). The current ratio for this fund is 13.32, which provides this fund with adequate resources to cover cash flow issues.

The water/sewer fund reported operating income of \$16.8 million. The City's management and elected officials are strategically balancing the amount of utility expenses that the citizens of Spokane can afford with the need to maintain service delivery, maintain and improve the utility's infrastructure, and provide for growth. Currently, this involves setting utility rate increases to be consistent with the consumer price index and aggressively managing operating expenses. The aggressive management of operating expenses allows for operating revenues to be directed towards investments in the utility's infrastructure. The sewer system is subject to regulatory requirements that will require significant capital improvements over the next several years. Part of the 2016 operating income will be directed towards those regulatory requirements in the coming years.

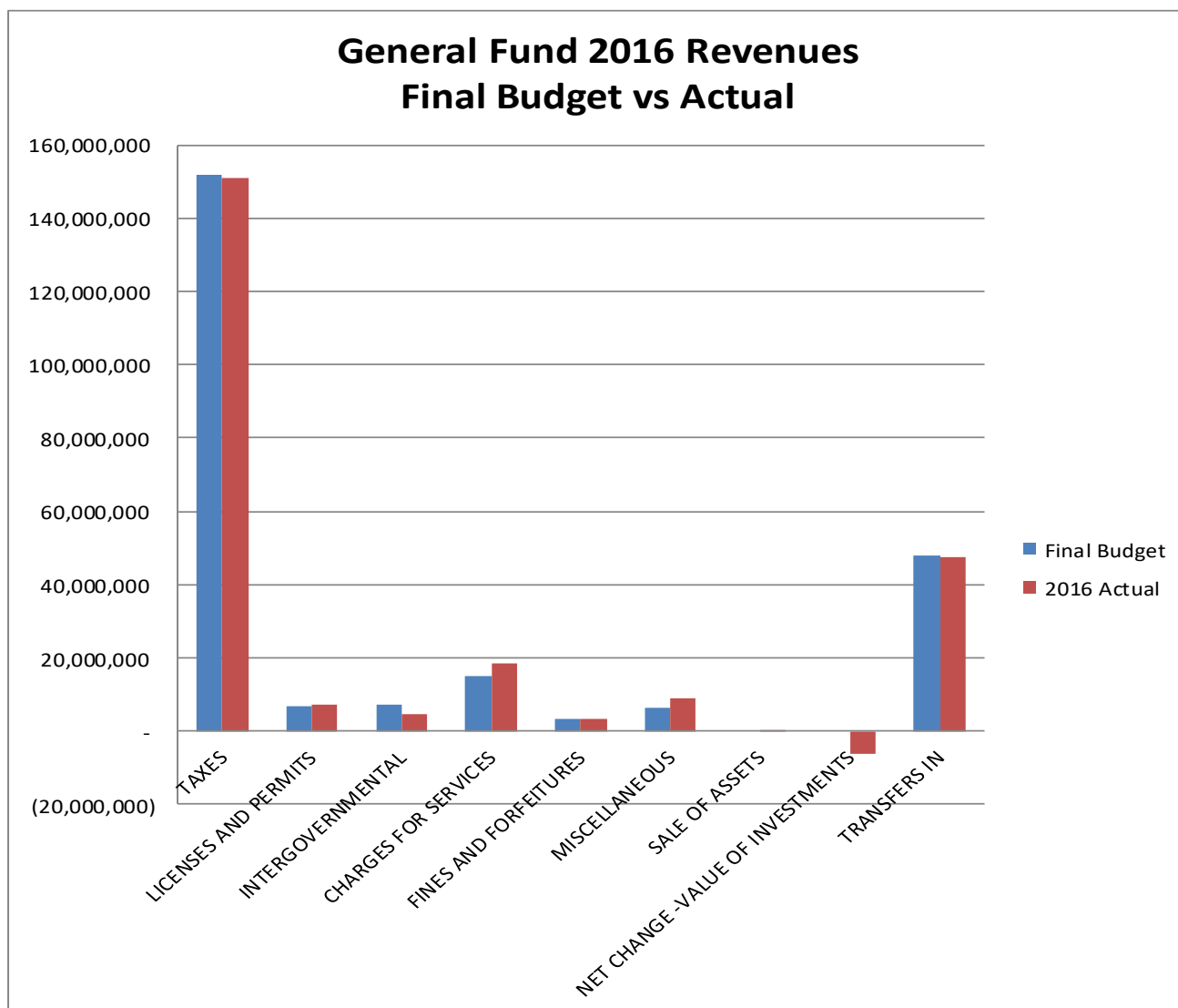
The **Solid Waste Fund** - The solid waste fund reports net position of \$73.3 million. The net investment in capital assets (i.e., the book value of the capital assets less related debt) is \$73.2 million with the remainder being unrestricted net position. The current ratio for this fund is 6.27, which provides this fund with adequate resources to cover cash flow requirements.

The solid waste fund reported an operating loss of \$10.6 million. Depreciation expense was \$11.7 million for the Solid Waste Fund, which accounted for all of the operating loss. It is a fact that the rate revenue increases have not been sufficient to cover all of the current operating expenses of the Department, including depreciation.

### **Budgetary Highlights**

The **General Fund** - In 2016, the original General Fund Revenue budget (excluding transfers and other financing sources) was \$2.3 million more than the 2015 actual results. In addition, the 2016 original expenditure budget (excluding transfers and other financing uses) was \$1.1 million more than the 2015 actual results. There was an unfavorable budget variance in taxes and intergovernmental revenues although this was more than offset by the favorable budget variance in charges for services. As discussed earlier for governmental funds as a whole, investment earnings for the General Fund were reduced by \$6.2 million due to a large reduction in the market valuation of securities held in the investment portfolio. This unrealized loss should be recovered in future years when the individual securities mature, as the city's policy has always been to hold its investment securities to maturity.

For the past several years, the City has strived to develop a budget that limits expenditures to anticipated revenue for the current year. The City Council amended both the revenue and expenditure budgets during 2016; the amendments resulted in a 0.20% change between the original and final budget for revenues, and a 1.4% change for expenditures.

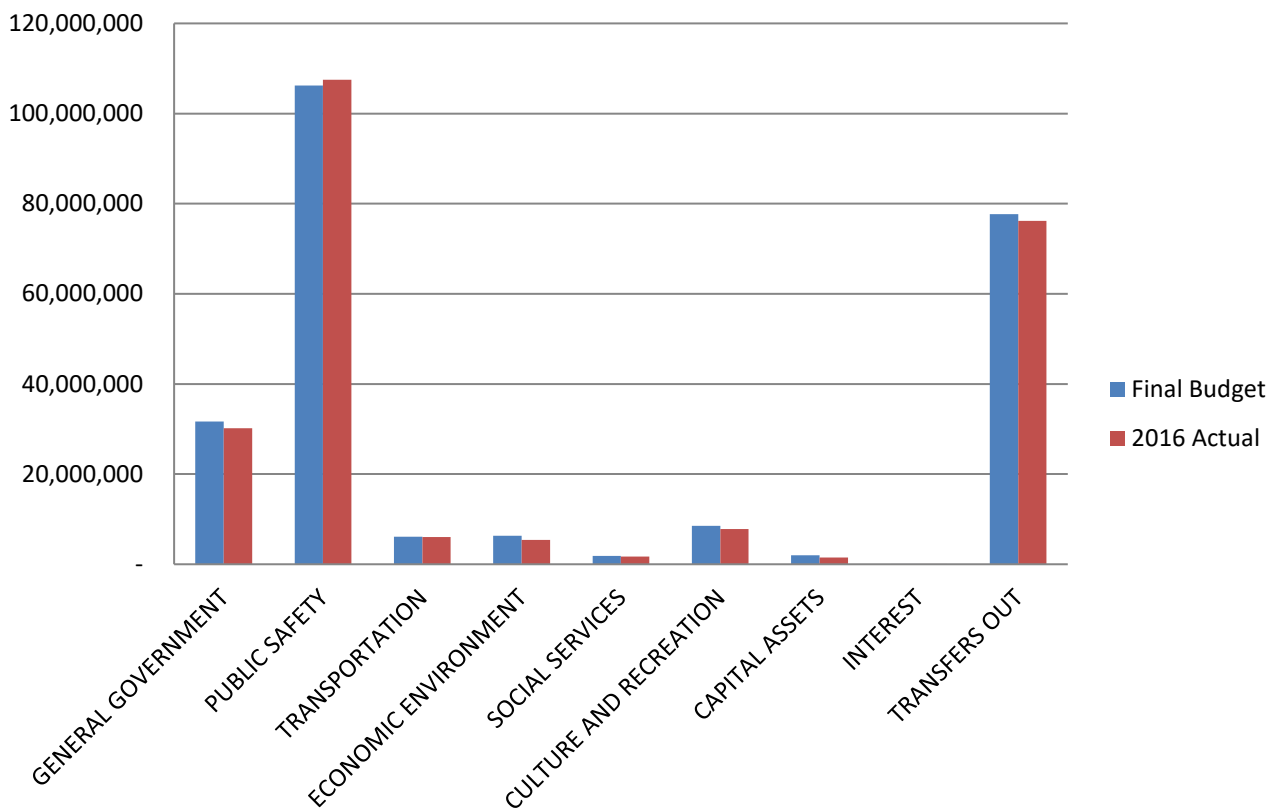


The actual revenues were approximately \$1.8 million less than the actual expenditures (including transfers out), or 1.0% excess of expenditures over revenues. However, the revenues were reduced by the \$6.2 million unrealized loss due to the net change in the valuation of city investments.

Excluding the effects of transfers in/out, the City had positive expenditure variances of \$2.5 million between the final budget and the actual amounts in all categories except Public Safety, which realized a \$1.3 unfavorable variance. The unfavorable variance in Public Safety was due to salaries and overtime in the Police Department. Generally, the positive variances are related to reduced expenditures across most of the general fund, as the City's management and Council continue to recognize the effects of prior revenue shortfalls and have adjusted expenditures accordingly.

As indicated by the budgetary operating statement, the City staff considers the annual budget to be an extremely important document and attempts to include in the budget their best estimate of revenue and expenditures. The City is also utilizing longer term budgetary projections to help the management and City Council make strategically sound budget decisions.

## General Fund 2016 Expenses Final Budget vs Actual



### Capital Assets and Debt Administration

#### **Capital assets**

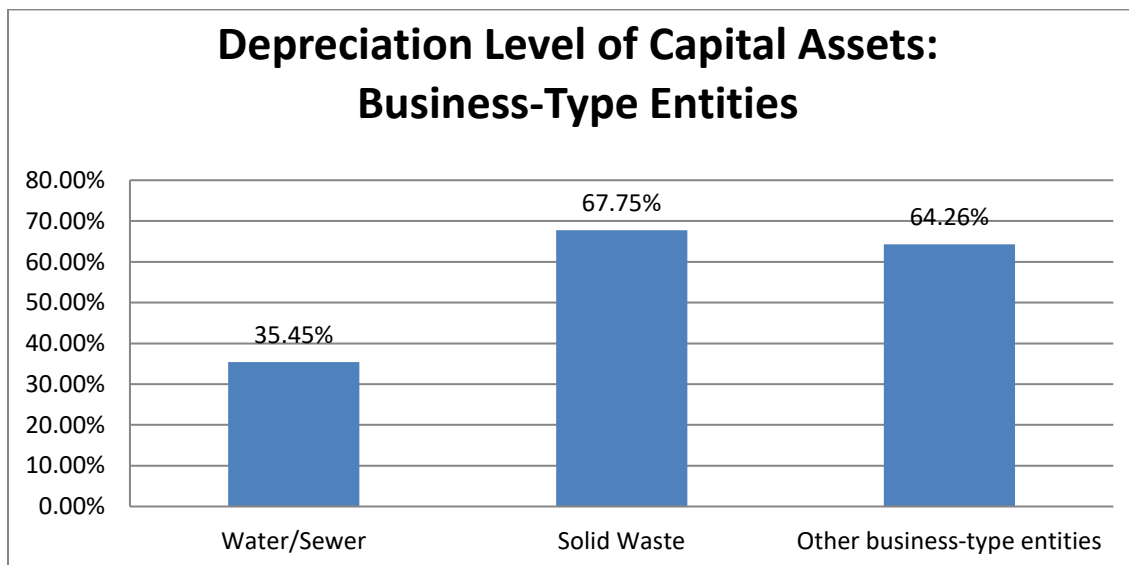
The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2016, was \$1,537.9 million and \$697.7 million respectively. See Note 4 for additional information about changes in capital assets during the fiscal year and amounts outstanding at the end of the year.

The following table provides a summary of capital assets.

	Governmental Activities		Business-Type Activities		Total	
Summary of Capital Assets (in thousands)	2016	2015	2016	2015	2016	2015
<b>NON-DEPRECIABLE ASSETS</b>						
Land	\$ 836,772	\$ 836,608	\$ 13,850	\$ 14,536	\$ 850,622	\$ 851,143
Construction in progress	38,802	29,271	63,264	56,509	102,067	85,780
<b>Total non-depreciable assets</b>	<b>875,575</b>	<b>865,879</b>	<b>77,114</b>	<b>71,045</b>	<b>952,689</b>	<b>936,924</b>
<b>DEPRECIABLE ASSETS</b>						
Buildings	87,571	87,832	319,792	301,412	407,363	389,243
Other improvements	89,126	86,423	104,809	99,894	193,935	186,317
Machinery and equipment	99,244	91,742	150,379	151,004	249,623	242,746
Infrastructure	1,051,321	1,038,982	550,301	525,502	1,601,622	1,564,484
Intangible assets	5,299	5,573	114	114	5,413	5,687
<b>Total depreciable assets</b>	<b>1,332,561</b>	<b>1,310,552</b>	<b>1,125,394</b>	<b>1,077,926</b>	<b>2,457,956</b>	<b>2,388,478</b>
<b>Total cost of capital assets</b>	<b>2,208,135</b>	<b>2,176,430</b>	<b>1,202,508</b>	<b>1,148,971</b>	<b>3,410,645</b>	<b>3,325,402</b>
<b>ACCUMULATED DEPRECIATION</b>	<b>(670,232)</b>	<b>(642,401)</b>	<b>(504,782)</b>	<b>(476,289)</b>	<b>(1,175,014)</b>	<b>(1,118,690)</b>
<b>Total book value of capital assets</b>	<b>\$ 1,537,904</b>	<b>\$ 1,534,030</b>	<b>\$ 697,726</b>	<b>\$ 672,682</b>	<b>\$ 2,235,630</b>	<b>\$ 2,206,712</b>
<b>Percentage depreciated</b>	<b>50%</b>	<b>49%</b>	<b>45%</b>	<b>44%</b>	<b>48%</b>	<b>47%</b>

At December 31, 2016 and December 31, 2015, the depreciable capital assets for governmental activities were 50-49% depreciated.

With the City's business-type activities, 45% of the asset values were depreciated at December 31, 2016 and 44% at December 31, 2015. These percentages indicate that the City is maintaining and replacing their assets at a favorable rate. The percentage of depreciated assets for each of the three enterprise funds that report capital assets is as follows:



## Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of \$435.2 million. Of this amount, \$192.5 million or 44.2% is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue. The other major component of \$241.4 million is supported by pledged revenues generated primarily by the business-type activities of the City (revenue bonds and loans from other governments).

During the year, the City retired \$36.6 million or 8.3% of the beginning outstanding borrowed debt balance.

	Governmental Activities		Business-Type Activities		Total	
Outstanding Borrowings	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 184,533,902	\$ 195,226,287	-	\$ 453,713	184,533,902	\$ 195,680,000
Deferred amounts	7,955,298	8,587,640	-	-	7,955,298	8,587,640
Special assessment debt	180,000	250,000	-	-	180,000	250,000
Capital leases	-	-	326,209	171,992	326,209	171,992
Revenue bonds	-	-	169,680,000	175,600,000	169,680,000	175,600,000
Deferred amounts	-	-	18,907,387	19,442,318	18,907,387	19,442,318
Other government/bank loans	1,066,056	1,178,973	52,527,663	35,950,172	53,593,719	37,129,145
Total	\$ 193,735,256	\$ 205,242,900	\$ 241,441,259	\$ 231,618,195	\$ 435,176,515	\$ 436,861,095

Long-term debt increased by \$34.6 million during 2016, which was the result of a \$16.1 million refunding of existing debt and the issuance of \$18.5 million of new government loans, which is a component of the funding for a large scale upgrade of the Riverside Park water reclamation facility, the city's main treatment plant.

On January 20, 2016, the city issued \$16,167,449 in limited tax general obligation (LTGO) refunding bonds with an average interest rate of 3.24 percent to refund \$16,065,000 of outstanding LTGO 2005B bonds with an average interest rate of 5.31 percent. The bonds were issued to refund all of the City's outstanding LTGO 2005B bonds and to pay the costs of issuance of the bonds. A portion of the net proceeds from the sale of the bonds and other available funds were deposited in an irrevocable trust with an escrow agent to redeem the 2005B bonds, which were callable after December 1, 2015. As a result, the 2005B bonds were redeemed and the liability for those bonds has been removed from the city's financial statements for 2016. The city refunded the 2005B LTGO bonds to reduce its total combined debt service payments over the next 12 years by \$2,396,158 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,872,801.

See Note 9 for additional information about the City's long-term debt.

## Economic Conditions Affecting the City

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Sales taxes are an "elastic" revenue stream; tax collections are higher in a flourishing economy and are lower in a depressed economy. While enjoying a strong economy in the middle of the last decade, the City of Spokane for the last several years has been dealing with the slow recovery from the nation-wide economic downturn. The City's management and elected officials are responding to the economic conditions with a balanced approach including cutting expenses, encouraging new business activity by minimizing tax increases, and using reserve balances strategically.

## Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, please contact the City's Office of Finance, 808 West Spokane Falls Boulevard, Spokane, WA 99201.

**City of Spokane, Washington**  
**Statement of Net Position**  
**December 31, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,459,861	\$ 4,589,731	\$ 15,049,592
Equity in pooled investments	195,187,175	282,869,591	478,056,766
Receivables (net)	38,998,768	34,849,862	73,848,630
Internal balances	(27,884,765)	27,884,765	-
Inventories	2,588,010	4,626,852	7,214,862
Other assets	21,777,005	-	21,777,005
Restricted Assets:			
Receivables, noncurrent	24,357,194	66,578	24,423,772
Equity in pooled investments, restricted	-	17,724,453	17,724,453
Capital Assets (Note 4):			
Non-depreciable assets	875,574,787	77,114,241	952,689,028
Depreciable assets, net of depreciation	662,329,321	620,612,115	1,282,941,436
Total capital assets, net of depreciation	1,537,904,108	697,726,356	2,235,630,464
<b>Total Assets</b>	1,803,387,356	1,070,338,188	2,873,725,544
<b>DEFERRED OUTFLOWS</b>			
Pensions	31,977,283	19,041,400	51,018,683
<b>Total deferred outflows</b>	31,977,283	19,041,400	51,018,683
<b>Total Assets Plus Deferred Outflows</b>	1,835,364,639	1,089,379,588	2,924,744,227
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	10,915,287	7,391,613	18,306,900
Other liabilities, current	11,535,175	4,316,001	15,851,176
Long term liabilities (Note 9):			
Due within one year	26,258,152	9,822,273	36,080,425
Due within more than one year	378,330,380	346,398,808	724,729,188
<b>Total Liabilities</b>	427,038,994	367,928,695	794,967,689
<b>DEFERRED INFLOWS</b>			
Loans/Grants	-	8,905,433	8,905,433
Pensions	3,055,890	-	3,055,890
Bond refundings	881,686	-	881,686
Property taxes	533,000	-	533,000
Sale of Future Revenue	-	68,984	68,984
<b>Total deferred inflows</b>	4,470,576	8,974,417	13,444,993
<b>Total Liabilities Plus Deferred Inflows</b>	431,509,570	376,903,112	808,412,682
<b>NET POSITION</b>			
Net investment in capital assets	1,410,134,333	625,227,245	2,035,361,578
Restricted for:			
Capital projects	32,082,310	-	32,082,310
Debt service	4,585,958	-	4,585,958
Grants/other	28,352,563	-	28,352,563
Police and firefighters' pension	959,880	-	959,880
Other	88,032	-	88,032
Unrestricted	(72,348,007)	87,249,231	14,901,224
<b>Total Net Position</b>	\$ 1,403,855,069	\$ 712,476,476	\$ 2,116,331,545

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

City of Spokane, Washington  
Statement of Activities  
For the Fiscal Period Ended December 31, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 29,484,994	\$ 7,616,191	\$ 372,745	\$ -	\$ (21,496,058)	\$ -	\$ (21,496,058)
Judicial	4,718,365	2,937,940	-	-	(1,780,425)	-	(1,780,425)
Public safety	121,662,107	10,569,858	2,092,411	-	(108,999,838)	-	(108,999,838)
Transportation	48,961,814	11,454,601	655,584	9,924,069	(26,927,560)	-	(26,927,560)
Economic environment	12,696,196	77,297	3,037,886	239,268	(9,341,745)	-	(9,341,745)
Social services	9,562,525	1,062,186	5,847,964	-	(2,652,375)	-	(2,652,375)
Culture and recreation	31,588,225	5,514,363	348,813	118,170	(25,606,879)	-	(25,606,879)
Interest on long-term debt	7,938,240	-	-	-	(7,938,240)	-	(7,938,240)
<b>Total governmental activities</b>	<b>266,612,466</b>	<b>39,232,436</b>	<b>12,355,403</b>	<b>10,281,507</b>	<b>(204,743,120)</b>	<b>-</b>	<b>(204,743,120)</b>
<b>Business-Type Activities:</b>							
Water/Sewer	119,550,146	130,505,616	48,325	8,981,980	-	19,985,775	19,985,775
Solid Waste	75,371,627	65,276,708	94,346	-	-	(10,000,573)	(10,000,573)
Other business-type activities	10,824,694	10,810,207	-	-	-	(14,487)	(14,487)
<b>Total Business-Type Activities</b>	<b>205,746,467</b>	<b>206,592,531</b>	<b>142,671</b>	<b>8,981,980</b>	<b>-</b>	<b>9,970,715</b>	<b>9,970,715</b>
<b>Total government</b>	<b>\$ 472,358,933</b>	<b>\$ 245,824,967</b>	<b>\$ 12,498,074</b>	<b>\$ 19,263,487</b>	<b>(204,743,120)</b>	<b>9,970,715</b>	<b>(194,772,405)</b>
<b>General revenues:</b>							
Property taxes					69,786,932	-	69,786,932
Sales taxes					53,231,770	-	53,231,770
Utility taxes					59,883,663	-	59,883,663
Other taxes					16,588,509	-	16,588,509
Investment earnings					(1,033,203)	263,700	(769,503)
Transfers					61,588	(61,588)	-
<b>Total general revenues and transfers</b>					<b>198,519,259</b>	<b>202,112</b>	<b>198,721,371</b>
<b>Change in Net Position</b>					<b>(6,223,861)</b>	<b>10,172,827</b>	<b>3,948,966</b>
Prior period adjustment					(10,559,531)	(424,406)	(10,983,937)
<b>Net Position - beginning (restated)</b>					<b>1,420,638,461</b>	<b>702,728,055</b>	<b>2,123,366,516</b>
<b>Net Position - ending</b>					<b>\$ 1,403,855,069</b>	<b>\$ 712,476,476</b>	<b>\$ 2,116,331,545</b>

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



**City of Spokane, Washington  
Balance Sheet  
Governmental Funds  
December 31, 2016**

	General Fund	Other Governmental Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,803,585	\$ 3,498,651	\$ 5,302,236
Deposits with fiscal agents/trustees	28,951	59,111	88,062
Equity in pooled investments	20,812,665	109,832,304	130,644,969
Taxes receivable	14,291,919	3,338,884	17,630,803
Special assessment receivable	-	2,066,160	2,066,160
Accounts receivable	3,793,523	3,201,900	6,995,423
Interest receivable	1,599,594	327,827	1,927,421
Due from other funds	5,779,973	2,792,240	8,572,213
Interfund loan receivable	2,076,257	986,266	3,062,523
Due from other governments	721,935	7,365,731	8,087,666
Advances to other funds	1,285,800	6,897,330	8,183,130
Inventories	1,198	1,054,465	1,055,663
Notes/contract receivable (non-current)	154,670	24,646,525	24,801,195
<b>Total Assets</b>	<b>52,350,070</b>	<b>166,067,394</b>	<b>218,417,464</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Total Deferred Outflows of Resources</b>	-	-	-
<b>Total Assets Plus Deferred Outflows of Resources</b>	<b>\$ 52,350,070</b>	<b>\$ 166,067,394</b>	<b>\$ 218,417,464</b>
<b>LIABILITIES</b>			
Accounts/vouchers payable	\$ 1,569,886	\$ 5,379,590	\$ 6,949,476
Due to other funds	1,183,882	2,625,309	3,809,191
Due to other governments	445,600	42,005	487,605
Revenues collected in advance	57,500	331,589	389,089
Interfund loan payable	-	1,888,443	1,888,443
Other accrued liabilities	5,238,660	1,093,293	6,331,953
Other current liabilities	793,914	3,553,614	4,347,528
<b>Total Liabilities</b>	<b>9,289,442</b>	<b>14,913,843</b>	<b>24,203,285</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes	2,150,631	2,572,194	4,722,825
Revenues not available	-	74,142	74,142
<b>Total Deferred Inflows of Resources</b>	<b>2,150,631</b>	<b>2,646,336</b>	<b>4,796,967</b>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	<b>11,440,073</b>	<b>17,560,179</b>	<b>29,000,252</b>
<b>Fund Balance</b>			
Nonspendable	1,285,800	-	1,285,800
Restricted - capital projects	-	87,615,038	87,615,038
Restricted - police & firefighters' pension	-	959,880	959,880
Restricted - grants	607,551	27,745,012	28,352,563
Restricted - debt service	-	4,585,958	4,585,958
Restricted - other	-	88,032	88,032
Committed	2,866,813	21,927,957	24,794,770
Assigned	17,100,707	5,585,338	22,686,045
Unassigned	19,049,126	-	19,049,126
<b>Total Fund Balance</b>	<b>40,909,997</b>	<b>148,507,215</b>	<b>189,417,212</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 52,350,070</b>	<b>\$ 166,067,394</b>	<b>\$ 218,417,464</b>

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

**City of Spokane**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**December 31, 2016**

<b>Total Fund Balance of Governmental Funds</b>	<b>\$</b>	<b>189,417,212</b>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Non-depreciable assets	867,866,848	
Depreciable assets	1,251,869,353	
Less: Accumulated depreciation	<u>(629,868,074)</u>	
Total capital assets		1,489,868,127

Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resources and therefore is not reported in the funds.	21,777,005
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Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the funds.	28,029,004
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Deferred inflows of resources represent an acquisition of fund equity that will be reported as an inflow of resources in a future period and therefore are not reported in the funds.

Property Taxes	5,404,737	
Grants	389,089	
Revenues Collected for future sales	74,142	
Refunding debt	(881,686)	
Pensions	<u>(3,055,890)</u>	
		1,930,392

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	29,404,521
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Bonds payable	(184,533,902)	
Deferred amounts on bond issuance	(7,955,298)	
Special assessment debt	(180,000)	
Due to other governments	(1,066,056)	
Revitalization Areas	(3,428,750)	
Pollution Remediation	(1,620,000)	
OPEB (other postemployment benefits) liability	(14,672,662)	
Net pension obligation	(127,090,638)	
Accrued interest on bonds	(617,958)	
Compensated absences	<u>(15,405,928)</u>	
Total long term liabilities		<u><b>(356,571,192)</b></u>

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>1,403,855,069</u></b>
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The notes to the financial statements are an integral part of this statement.

**City of Spokane, Washington**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended December 31, 2016**

	General Fund	Other Governmental Funds	Total
<b>REVENUES</b>			
Taxes	\$ 151,201,589	\$ 38,089,549	\$ 189,291,138
Licenses and permits	6,992,715	614,418	7,607,133
Intergovernmental	4,549,060	32,951,302	37,500,362
Charges for services	18,389,565	15,261,642	33,651,207
Fines and forfeitures	3,225,243	4,557,608	7,782,851
Miscellaneous	8,787,853	5,106,129	13,893,982
Net inc(dec) in market value of investments	(6,220,198)	(4,198,018)	(10,418,216)
<b>Total Revenues</b>	<b>186,925,827</b>	<b>92,382,630</b>	<b>279,308,457</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General government	30,150,004	9,989,444	40,139,448
Public safety	107,467,432	14,647,982	122,115,414
Transportation	6,057,102	22,766,338	28,823,440
Economic environment	5,402,059	7,723,615	13,125,674
Social services	1,712,802	7,598,425	9,311,227
Culture and recreation	7,785,349	17,372,816	25,158,165
<b>Capital outlays</b>	<b>1,460,157</b>	<b>32,907,678</b>	<b>34,367,835</b>
<b>Debt service:</b>			
Principal	-	5,813,977	5,813,977
Interest	66,518	7,871,722	7,938,240
<b>Total Expenditures</b>	<b>160,101,423</b>	<b>126,691,997</b>	<b>286,793,420</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>26,824,404</b>	<b>(34,309,367)</b>	<b>(7,484,963)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	130,008	276,471	406,479
Proceeds of bonds issued	-	16,167,449	16,167,449
Payment to escrow agent for refunded bond debt	-	(16,338,420)	(16,338,420)
Transfers in	137,523	35,915,318	36,052,841
Transfers out	(28,917,531)	(7,432,845)	(36,350,376)
<b>Total Other Financing Sources (Uses)</b>	<b>(28,650,000)</b>	<b>28,587,973</b>	<b>(62,027)</b>
<b>Net change in fund balance</b>	<b>(1,825,596)</b>	<b>(5,721,394)</b>	<b>(7,546,990)</b>
<b>Fund Balance - beginning</b>	<b>41,073,772</b>	<b>164,846,562</b>	<b>205,920,334</b>
Prior Period Adjustment	1,661,821	(10,617,953)	(8,956,132)
<b>Fund balance - ending</b>	<b>\$ 40,909,997</b>	<b>\$ 148,507,215</b>	<b>\$ 189,417,212</b>

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

**City of Spokane**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**  
**to the Statement of Activities**  
**December 31, 2016**

**Change in fund balance - governmental funds** **\$ (7,546,990)**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, capital outlays did not exceed depreciation expense:

Capital outlays	36,534,108	
Depreciation expense	<u>(31,600,909)</u>	4,933,199

In the Statement of Activities, only the loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in fund balance differs from the change in net position by the cost of capital assets sold.

Capital assets sold	(12,897,120)	
Less accumulated depreciation	<u>6,865,196</u>	(6,031,924)

Some revenues in the governmental funds that were not available until the current year were reported in prior years in the Statement of Activities.		(988,485)
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Some revenues in the governmental funds that were earned in the current year but are unavailable should be reported in the current year Statement of Activities.		1,233,589
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount payments exceeded proceeds:

Additional Bond Issuance	(102,449)	
Principal repayments - general obligation debt	5,982,259	
Principal repayments - special assessment debt	70,000	
Principal repayments - due to other governments	112,917	
Principal repayments - Revitalization Areas	106,225	6,168,952

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 the governmental funds.

(Increase) decrease in OPEB (other postemployment benefit) liability	(755,462)	
(Increase) decrease in compensated absences	622,082	
(Increase) decrease in Revitalization Area	35,756	
(Increase) decrease in deferred amounts on bond issuance	632,342	
(Increase) decrease in accrued interest	64,280	
Increase (decrease) in Pension Expense	(2,447,464)	
(Increase) decrease in refunding amortization	110,211	(1,738,255)

Internal service funds are used by management to charge the costs of certain activities such as fleet management and insurance to individual funds. The net gain of internal service funds is reported with governmental activities.

(2,253,947)

**Change in net position of governmental activities** **\$ (6,223,861)**

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

**City of Spokane, Washington**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2016**

	<b>Business-type Activities-Enterprise Funds</b>				<b>Governmental Activities Internal Service</b>
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 3,606,955	\$ 659,071	\$ 264,179	\$ 4,530,205	\$ 4,029,742
Deposits with fiscal agents	50,915	8,611	-	59,526	1,039,821
Equity in pooled investments	259,274,712	19,226,253	4,368,626	282,869,591	64,542,206
Accounts receivable	13,821,838	6,587,870	505,317	20,915,025	553,819
Interest receivable	314,025	28,689	3,742	346,456	68,707
Due from other funds	1,813,890	1,050,725	334,277	3,198,892	4,705,907
Interfund loan receivable	2,538,584	274,810	32,731	2,846,125	490,752
Due from other governments	13,563,691	24,690	-	13,588,381	9,855
Inventories	2,610,916	1,973,018	42,918	4,626,852	1,532,347
Prepayments	-	-	-	-	-
Equity in pooled investments, restricted	7,002,316	10,722,137	-	17,724,453	-
<b>Total current assets</b>	<b>304,597,842</b>	<b>40,555,874</b>	<b>5,551,790</b>	<b>350,705,506</b>	<b>76,973,156</b>
<b>Noncurrent assets:</b>					
Non depreciable capital assets:					
Land	10,110,205	2,450,382	1,289,224	13,849,811	6,742,065
Construction in progress	63,264,430	-	-	63,264,430	965,875
Depreciable capital assets:					
Property, plant, and equipment	333,878,770	224,662,477	16,438,321	574,979,568	65,813,519
Infrastructure	550,300,864	-	-	550,300,864	9,579,118
Capitalized software	-	-	-	-	5,299,085
Intangible assets	113,766	-	-	113,766	-
Less accumulated depreciation	(339,518,777)	(153,872,389)	(11,390,917)	(504,782,083)	(40,363,681)
<b>Total capital assets</b>	<b>618,149,258</b>	<b>73,240,470</b>	<b>6,336,628</b>	<b>697,726,356</b>	<b>48,035,981</b>
<b>Other noncurrent assets</b>					
Other noncurrent assets	38,500	28,078	-	66,578	-
Advances to other funds	17,379,389	1,881,382	224,076	19,484,847	3,359,732
<b>Total noncurrent assets</b>	<b>635,567,147</b>	<b>75,149,930</b>	<b>6,560,704</b>	<b>717,277,781</b>	<b>51,395,713</b>
<b>Total assets</b>	<b>940,164,989</b>	<b>115,705,804</b>	<b>12,112,494</b>	<b>1,067,983,287</b>	<b>128,368,869</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pensions	8,631,321	8,748,267	1,661,812	19,041,400	3,948,279
<b>Total deferred outflows of resources</b>	<b>8,631,321</b>	<b>8,748,267</b>	<b>1,661,812</b>	<b>19,041,400</b>	<b>3,948,279</b>
<b>Total assets plus deferred outflows of resources</b>	<b>948,796,310</b>	<b>124,454,071</b>	<b>13,774,306</b>	<b>1,087,024,687</b>	<b>132,317,148</b>

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

**City of Spokane, Washington**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2016**

	<b>Business-type Activities-Enterprise Funds</b>				<b>Governmental Activities Internal Service</b>
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	4,273,815	2,887,931	146,915	7,308,661	2,860,640
Claims and judgements payable	-	-	-	-	18,686,438
Compensated absences	214,505	86,560	32,537	333,602	198,901
Capital lease payable	-	-	82,942	82,942	-
Due to other funds	6,083,753	2,338,514	226,460	8,648,727	4,019,094
Interfund loan payable	-	-	453,712	453,712	35,084,953
Due to other governments	2,415,806	-	-	2,415,806	-
Revenue bonds payable	7,002,316	-	-	7,002,316	-
Accrued interest	697,066	-	-	697,066	42,563
Other accrued liabilities	1,554,310	935,614	242,550	2,732,474	700,584
Other current liabilities	620,975	215,502	120,531	957,008	112,155
<b>Total current liabilities</b>	<b>22,862,546</b>	<b>6,464,121</b>	<b>1,305,647</b>	<b>30,632,314</b>	<b>61,705,328</b>
<b>Current liabilities payable from restricted assets:</b>					
Total current liabilities payable from restricted assets	-	-	-	-	-
<b>Noncurrent Liabilities:</b>					
Revenue bonds payable	181,585,071	-	-	181,585,071	-
General obligation bonds payable	-	-	-	-	-
Due to other government units	50,124,252	-	-	50,124,252	-
Compensated absences	2,929,486	1,223,352	538,091	4,690,929	1,341,210
Noncurrent capital lease payable	-	-	243,268	243,268	-
Net pension liability	56,606,995	32,159,474	9,688,192	98,454,661	28,408,749
Accrued landfill postclosure liability	-	11,300,629	-	11,300,629	-
<b>Total noncurrent liabilities</b>	<b>291,245,804</b>	<b>44,683,455</b>	<b>10,469,551</b>	<b>346,398,810</b>	<b>29,749,959</b>
<b>Total Liabilities</b>	<b>314,108,350</b>	<b>51,147,576</b>	<b>11,775,198</b>	<b>377,031,124</b>	<b>91,455,287</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pensions	-	-	-	-	-
Unavailable revenues	8,905,443	-	68,984	8,974,427	-
<b>Total deferred inflows of resources</b>	<b>8,905,443</b>	<b>-</b>	<b>68,984</b>	<b>8,974,427</b>	<b>-</b>
<b>Total liabilities plus deferred inflows of resources</b>	<b>323,013,793</b>	<b>51,147,576</b>	<b>11,844,182</b>	<b>386,005,551</b>	<b>91,455,287</b>
<b>NET POSITION</b>					
Net investments in capital assets	545,976,355	73,240,470	6,010,420	625,227,245	48,035,981
Restricted for unspent bond proceeds	-	-	-	-	-
Unrestricted	79,806,162	66,025	(4,080,296)	75,791,891	(7,174,120)
<b>Total Net Position</b>	<b>\$ 625,782,517</b>	<b>\$ 73,306,495</b>	<b>\$ 1,930,124</b>	<b>701,019,136</b>	<b>\$ 40,861,861</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				11,457,340	
Net position of business-type activities				<u>\$ 712,476,476</u>	

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

**City of Spokane, Washington**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2016**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Funds</b>
	<b>Water/Sewer</b>	<b>Solid Waste</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	
<b>OPERATING REVENUES</b>					
Charges for goods and services	\$ 130,179,350	\$ 63,183,840	\$ 10,767,542	\$ 204,130,732	\$ 82,019,345
Total operating revenues	130,179,350	63,183,840	10,767,542	204,130,732	82,019,345
<b>OPERATING EXPENSES</b>					
Salaries and wages	22,546,051	13,266,147	4,487,648	40,299,846	11,796,905
Personnel benefits	8,012,401	4,680,962	1,546,833	14,240,196	4,076,637
Supplies	4,762,975	3,562,137	250,028	8,575,140	3,031,438
Other services and charges	25,684,950	30,283,813	3,992,370	59,961,133	15,143,755
Taxes	29,974,703	9,833,580	21,302	39,829,585	145,994
Depreciation/amortization	22,092,339	11,691,138	659,124	34,442,601	4,904,385
Risk transfer payments	273,837	429,922	-	703,759	8,836,061
Claims processing	-	-	-	-	2,715,614
Payments to claimants and beneficiaries	-	-	-	-	31,299,646
Total operating expenses	113,347,256	73,747,699	10,957,305	198,052,260	81,950,435
Operating Income (Loss)	16,832,094	(10,563,859)	(189,763)	6,078,472	68,910
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	217,958	37,520	8,222	263,700	118,411
Gain (loss) on disposition of capital assets	(331,872)	(2,516,467)	-	(2,848,339)	146,383
Interest expense	(7,242,815)	-	-	(7,242,815)	(718,994)
Other nonoperating revenue	1,964,558	2,148,963	42,665	4,156,186	668,197
Total nonoperating revenues (expenses)	(5,392,171)	(329,984)	50,887	(5,671,268)	213,997
Income (loss) before capital contributions and transfers	11,439,923	(10,893,843)	(138,876)	407,204	282,907
Capital contributions	7,392,013	38,251	-	7,430,264	114,006
Transfers in	-	5,003,114	35,000	5,038,114	6,018,298
Transfers out	(5,093,008)	(4,410)	(2,284)	(5,099,702)	(5,791,545)
Other debt & loans	-	-	-	-	(5,274,560)
Total contributions and transfers	2,299,005	5,036,955	32,716	7,368,676	(4,933,801)
Change in Net Position	13,738,928	(5,856,888)	(106,160)	7,775,880	(4,650,894)
Prior Period Adjustment	(460,616)	33,485	2,725	(424,406)	57,432
<b>Net Position - beginning (restated)</b>	612,043,589	79,163,383	2,036,284		45,512,755
<b>Net Position - ending</b>	\$ 625,782,517	\$ 73,306,495	\$ 1,930,124		\$ 40,861,861
Change in Net Position				7,775,880	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				2,396,947	
Change in net position of business-type activities				\$ 10,172,827	

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

**City of Spokane, Washington**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2016**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service
	Water/Sewer	Solid Waste	Other Enterprise Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 148,568,640	\$ 64,427,746	\$ 10,478,543	\$ 223,474,929	\$ 82,493,730
Payments to suppliers for services	(34,980,243)	(35,108,932)	(4,207,490)	(74,296,665)	(59,009,551)
Payments to employees	(24,957,109)	(16,242,046)	(4,695,366)	(45,894,521)	(16,013,119)
Payment for taxes - city and state	(29,974,703)	(9,833,580)	(21,302)	(39,829,585)	(145,994)
Other receipts (payments)	553,972	33,485	2,725	590,182	57,432
Net cash provided (used) by operating activities	59,210,557	3,276,673	1,557,110	64,044,340	7,382,498
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in (out)	(5,063,800)	4,998,704	35,000	(30,096)	3,555,914
Net cash provided (used) by noncapital financing activities	(5,063,800)	4,998,704	35,000	(30,096)	3,555,914
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>					
Proceeds from disposal of capital assets	104,399	55,131	-	159,530	175,027
Proceeds from loans, notes, and lease purchase payable	18,538,425	-	453,712	18,992,137	5,085,553
Capital grants and contributions received	-	-	-	-	-
Acquisition and construction of capital assets	(50,791,752)	(5,492,704)	(221,247)	(56,505,703)	(9,929,886)
Principal paid on revenue bonds	(7,865,511)	-	-	(7,865,511)	-
Principal paid on capital leases	-	-	(62,422)	(62,422)	-
Principal paid on interfund loans	-	-	-	-	(8,830,465)
Interest paid on interfund loans	-	-	-	-	(718,995)
Interest paid on revenue bonds	(7,267,481)	-	-	(7,267,481)	-
Interest paid on general obligation bonds	-	-	(453,712)	(453,712)	-
Transfers in (out)	(29,208)	(36,955)	(2,284)	(68,447)	(3,232,337)
Net cash provided (used) by capital and related financing activities	(47,311,128)	(5,474,528)	(285,953)	(53,071,609)	(17,451,103)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	(80,925,973)	(19,415,234)	(2,900,051)	(103,241,258)	(23,382,300)
Proceeds from sales and maturities of investments	32,388,831	13,927,873	455,209	46,771,913	10,189,772
Interest received	11,083	20,364	5,481	36,928	71,364
Net cash provided (used) by investing activities	(48,526,059)	(5,466,997)	(2,439,361)	(56,432,417)	(13,121,164)
Net increase (decrease) in cash and cash equivalents	(41,690,430)	(2,666,148)	(1,133,204)	(45,489,782)	(19,633,855)
Cash and cash equivalents - January 1	45,297,385	3,325,219	1,397,383	50,019,987	23,663,597
Cash and cash equivalents - December 31	\$ 3,606,955	\$ 659,071	\$ 264,179	\$ 4,530,205	\$ 4,029,742
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Operating Income (Loss)	\$ 16,832,094	\$ (10,563,859)	\$ (189,763)	\$ 6,078,472	\$ 68,910
<b>Adjustments to Reconcile Operating Income</b>					
Depreciation & amortization	22,092,339	11,691,138	659,124	34,442,601	4,904,385
Prior period adjustment	553,972	33,485	2,725	590,182	57,432
Change in Accounting Principle	-	-	-	-	-
Other revenues	1,964,558	2,148,963	42,665	4,156,186	668,197
Other expenses	-	-	-	-	-
<b>Change in Assets: Decrease (Increase)</b>					
Receivables, net of allowance	7,524,789	(905,679)	(331,664)	6,287,446	(194,455)
Deposits with fiscal agents	-	622	-	622	643
Inventories	(122,401)	463,679	(20,176)	321,102	(110,487)
Prepayments	-	-	-	-	(71,857)
<b>Change in Deferred Outflows : Decrease (Increase)</b>	(1,110,651)	(5,167,466)	(92,454)	(6,370,571)	(747,399)
<b>Change in Liabilities: Increase (Decrease)</b>					
Payables	12,020,209	6,865,735	1,486,653	20,372,597	5,198,531
<b>Change in Deferred Inflows: Increase (Decrease)</b>	(544,352)	(1,289,945)	-	(1,834,297)	(2,391,402)
<b>Net Cash provided (used) by operating activities</b>	<b>\$ 59,210,557</b>	<b>\$ 3,276,673</b>	<b>\$ 1,557,110</b>	<b>\$ 64,044,340</b>	<b>\$ 7,382,498</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>					
Contributions of capital assets	\$ 2,145,885	\$ 38,251	\$ -	\$ 2,184,136	\$ 200,327

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



**City of Spokane, Washington**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2016**

	Pension and Other Employee Benefit Plans	Private-Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 896,686	\$ 15,463	\$ 4,391,376
Short term investments	1,254,996	-	-
Receivables, pension and other employee benefit plans:			
Interest and dividends	319,442	-	-
Taxes receivable	300,000	-	-
Other receivables	857	-	11,158
Due from other governments	-	-	102,657
<b>Total Current Assets</b>	<b>2,771,981</b>	<b>15,463</b>	<b>4,505,191</b>
<b>Noncurrent Assets:</b>			
Investments, noncurrent, at fair value:			
U.S. fixed income	71,839,774	-	-
International/global fixed income	1,518,469	-	-
U.S. equities	87,529,212	-	-
Real estate	23,739,250	-	-
International equities	56,796,776	-	-
Alternatives	64,250,771	-	-
Total investments	305,674,252	-	-
Capital assets:			
Software	477,000	-	-
Other improvements	17,539	-	-
Accumulated depreciation	(136,789)	-	-
Investments, noncurrent, all other funds:			
<b>Total Noncurrent Assets</b>	<b>306,032,002</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>308,803,983</b>	<b>15,463</b>	<b>4,505,191</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets plus Deferred Outflows of Resources</b>	<b>308,803,983</b>	<b>15,463</b>	<b>4,505,191</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts/vouchers payable	219,910	-	3,415
Warrants payable	-	-	4,038,615
Due to other governments	751	-	459,986
Compensated absences	16,320	-	-
Other accrued liabilities	17,017	-	-
Other current liabilities	225,701	-	3,175
<b>Total Current Liabilities</b>	<b>479,699</b>	<b>-</b>	<b>4,505,191</b>
<b>Noncurrent Liabilities:</b>			
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>479,699</b>	<b>-</b>	<b>4,505,191</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities plus Deferred Inflows of Resources</b>	<b>479,699</b>	<b>-</b>	<b>\$ 4,505,191</b>
<b>NET POSITION</b>			
Net position held in trust for:			
Pension benefits	308,324,284	-	
Individuals, organizations, and other governments	-	15,463	
<b>Total Net Position</b>	<b>\$ 308,324,284</b>	<b>\$ 15,463</b>	

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

**City of Spokane, Washington**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the fiscal year ended December 31, 2016**

	Pension Trust Funds	Private Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 15,452,893	\$ -
Plan members	7,586,362	-
Intergovernmental revenue	281,775	-
Medicare retiree drug subsidy	250,296	-
Miscellaneous	19,565	-
Private contributions	-	3,904
Total Contributions	23,590,891	3,904
Investment Income:		
Net increase (decrease) in fair value of investments	11,034,419	-
Interest and dividends	6,706,722	-
Total investment earnings (loss)	17,741,141	-
Less: Investment expense	(465,390)	-
Net investment income (loss)	17,275,751	-
<b>Total Additions</b>	40,866,642	3,904
<b>DEDUCTIONS</b>		
Pension Benefits	27,526,831	-
Medical and dental benefits	5,243,699	-
Pension refunds	729,741	-
Medical and dental administration	431,524	-
Administrative expenses	585,602	3,203
<b>Total Deductions</b>	34,517,397	3,203
<b>Change in Fiduciary Net Position</b>	6,349,245	701
<b>Fund Balance - beginning</b>	301,975,039	14,762
<b>Net position - ending</b>	\$ 308,324,284	\$ 15,463

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

## Note 1

### Summary of Significant Accounting Policies

The City of Spokane was incorporated November 29, 1881 with a population of 1,000 people and an area of two square miles. Today, over 100 years later, the City's population is approximately 209,100 people within an area of about 60.2 square miles. The City's first charter was adopted December 28, 1910, with a Commission form of government. On January 1, 2001 the City began operating under the Strong Mayor-Council form of government that was adopted November 7, 2000.

The accounting policies of the City of Spokane conform to generally accepted accounting principles, as applicable to governments. The accompanying summary of the City of Spokane's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

Effective for fiscal year 2016 reporting, the City adopted the following new standard issued by the Governmental Accounting Standards Board (GASB):

GASB 72 (fair value measurement) and GASB 76 (new hierarchy for GAAP as applied to state and local governments) have been applied to these statements for 2016, although the city has always used fair value reporting for all of its investments.

GASB 78 (relates to the reporting for pensions and related assets not within the scope of GASB 68) is not applicable to the city as the city has no pensions of this type.

GASB 77 (Tax Abatement Disclosures)

Tax abatements occur when a government offers reduced taxes to a specific taxpayer for the purpose of spurring economic development. This statement requires disclosing information regarding tax abatement agreements such as, the purpose of the tax abatement program, the tax being abated, dollar amount of taxes abated, provisions for recapturing abated taxes, and the types of commitments made by the government and tax abatement recipients.

#### A. REPORTING ENTITY

The accompanying financial statements of the City of Spokane include all funds, activities and functions over which the City's executive and legislative bodies exercise oversight responsibility. Oversight responsibility is derived from the City's power and includes, but is not limited to: (a) financial interdependency, (b) selection of governing authority, (c) designation of management, (d) ability to significantly influence operations, and (e) accountability for fiscal matters.

The most significant manifestation of oversight is financial interdependency. This includes the responsibility for financing deficits, entitlement to surpluses, and guarantees of "moral responsibility" for debt.

Included in the accompanying financial statements are several funds that are administered by independent boards. These include the Library fund, Parks fund, Employees' Retirement fund, Firefighters' Pension fund, and the Police Pension fund. These organizations meet the criteria for inclusion in the City's financial statements.

The following organizations are not part of the City of Spokane and are excluded from the accompanying financial statements:

#### Community Colleges of Spokane

The governing body is appointed by the Governor of the State of Washington. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

**Spokane School District #81**

The voters of the school district elect the governing body and taxes are levied by the school district itself. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

**Spokane Housing Authority**

The governing body is appointed by the Mayor of the City. It is an independent entity that does not have taxing authority, but can issue bonds. State law provides that liabilities incurred by them be satisfied from their assets and that no person shall have any right of action against the City on account of their debts, obligations and liabilities. The City does not, therefore, have oversight responsibility nor does any financial interdependency exist between the two entities.

**Spokane Transit Authority**

The governing body is appointed jointly by the City and Spokane County. Small cities in the Spokane Transit Authority service area also elect a representative. The City has no oversight responsibility nor does any financial interdependency exist.

**Spokane Public Facilities District**

The governing board consists of five members. Two are appointed by the City, two by Spokane County, and the fifth member is selected by the other four members. The City has no oversight responsibility nor does any financial interdependency exist.

**Blended Component Unit**

Blended component units, although legally separate entities, are those considered to be part of the city's operation in substance. They are financially accountable to the city, or have relationships with the city such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as blended component units because city officials either serve on or appoint the members of the governing bodies of the authorities.

The Northeast Public Development Authority was created to invest in community outreach, infrastructure, economic development partnerships, and land development to create business and job opportunities within the northeast development target area. As of December 31, 2016, there were no financial transactions that are reported in the city's financial statements.

The Spokane Transportation Benefit District (TBD) was created to make transportation improvements consistent with existing state, regional, and local transportation plans. The financial transactions of the TBD have been combined as part of the primary government in the government-wide *Statement of Net Position* and the *Statement of Activities*.

The separately issued financial statements of these related organizations are filed with the State Auditor's Office and can be found at <http://portal.sao.wa.gov/ReportSearch>.

**Discretely Presented Component Unit**

A discretely presented component unit does not function as an integral part of the primary government, its data is presented separately from the data of the primary government.

The University Public Development Authority (PDA) was established to cultivate an urban university district environment favorable to development. As of December 31, 2016, the PDA had \$0 expenses.

**Joint Ventures**

The City participates in two joint ventures. These include the Spokane International Airport and the Spokane Regional Transportation Council. The Spokane Regional Transportation Council is accounted for by the City in an Agency fund. The Spokane International Airport is not part of the City and is excluded from the accompanying financial statements. See Note 11, Joint Ventures, which more fully describes these organizations.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **Government-Wide Financial Statements**

The city presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These government-wide financial statements report information on all activities of the primary government unit and its component units, if any. The accompanying fiduciary funds are not included in the government-wide financial statements. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

#### **Statement of Net Position**

The Statement of Net Position presents the city's assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) are classified into three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net position results when constraints are placed on net asset use either by external parties or by law through enabling legislation.
- Unrestricted net position consists of amounts that do not meet the definition of the two preceding categories.

#### **Statement of Activities**

The Statement of Activities reports the extent to which each major city program is supported by general city revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a city resident or taxpayer or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation and risk management insurance programs and the various other city programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

### **Fund Financial Statements**

The city presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in

the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

### **Major Governmental Funds**

- **General Fund** is the city's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

### **Major Enterprise Funds**

- **Water/Sewer Fund** accounts for the operation and construction of the water and wastewater distribution systems, the hydroelectric facilities, and the wastewater treatment facility, and accounts for all revenues and expenses incurred in its operation.
- **Solid Waste Fund** is used to account for the collection and disposal of the city's refuse, including curbside and yard waste recycling. The operation of the waste-to-energy facility is also accounted for in this fund.

### **Operating and Nonoperating Revenues and Expenses**

The city's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. All revenue and expenses not meeting this definition are reported as nonoperating, including interest expense and interest income.

The city includes the following governmental and proprietary fund types within nonmajor funds.

### **Nonmajor Governmental Funds**

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of city programs including the city's street program, parks department, and community development programs.
- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the city's bonds issued in support of governmental activities.
- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major city-owned facilities (other than those financed by proprietary funds).

### **Nonmajor Proprietary Funds**

- **Enterprise Funds** account for the city's business type operations for which a fee is charged to external users for goods or services such as golf and building permits.
- **Internal Service Funds** account for the city's risk management, data processing, accounting, utility billing, fleet services, and other services provided by one department to other departments of the city on a cost-reimbursement basis.

### **Fiduciary Funds**

The city reports the following fiduciary funds:

- **Pension (and other Employee Benefit) Trust Funds** are used to report resources that are required to be held in trust by the city for the members and beneficiaries of its defined benefit and other employee benefits

plans. Included in this category are the Employees' Retirement Fund, the Firefighters' Pension and OPEB Funds, and the Police Pension and OPEB Funds.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension trusts, under which trust principal and income benefit individuals, private organizations, or other governments. Included in this category is the Finch Arboretum Trust Fund.
- **Agency Funds** account for resources held by the city in a custodial capacity for other governments, private organizations, or individuals. Included in this category are the Parking and Business District Fund, the Spokane Regional Transportation Council Fund, the EMS Program Director Fund, the Salary Clearing Fund, the Claims Clearing Fund and the Fiscal Agency Fund.

The fiduciary funds are not included in the government-wide financial statements

### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the city uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as the eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the city uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and liabilities are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay for liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, federal grants in aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the eligibility criteria is met. Expenditure-driven grant revenue is considered available if it can be collected by the city at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collected within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term obligations is recognized when due, and certain compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The city reports deferred inflows of resources on the balance sheet of its governmental funds under certain conditions. Deferred inflows of resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred inflows of resources also arise

when resources are received by the city before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on their respective statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Net position for trust funds are held in trust for external individuals and organizations.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

### Excess of Expenditures Over Appropriations

The following governmental funds reported excess expenditures and other uses over appropriations:

<b>Fund</b>	<b>Amount</b>
Pension Contributions Fund	(1,439,623)
Housing Stabilization Program Fund	(20,085)
Misc Community Development Grants Fund	(74,287)
Special Assessment Debt Service Fund	(81,767)
Kendall Yards TIF Fund	(88,088)
<b>Total</b>	<b>(1,703,850)</b>

### Funds with Deficit Fund Balance/Net Position

The following funds reported deficit fund balance/net position as of December 31, 2016:

<b>Fund</b>	<b>Amount</b>
WIA Youth Fund	253
Building Services Fund	2,911,231
Public Works Utilities Fund	2,400,783
Reprographics Fund	140,241
Accounting Services Fund	7,186,770
Workers' Compensation Fund	94,834
<b>Total</b>	<b>12,734,112</b>

The net position deficit for the Building Services, Public Works Utilities, Reprographics, and Accounting Services Funds is due to the recognition of the net pension liability related to the City's Employee's Retirement System pursuant to GASB 68. It is unknown if/when the deficit will be recovered.



## **D. BUDGETARY INFORMATION**

Annual appropriated budgets are adopted for all funds within the City, including the General, Special Revenue, Debt Service, and Capital Projects funds. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

The budget basis is substantially the same as the basis of accounting in all governmental funds.

The City follows these policies and procedures in establishing the budgetary data reported in the financial statements:

1. Prior to November 1, the Mayor submits to the City Council a preliminary budget and budget message and files it with the City Clerk.
2. Public hearings are conducted to obtain taxpayers comments.
3. Prior to January 1, the budget is legally adopted through passage of an ordinance. The City is required by state law to adopt a balanced budget.
4. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the City Council.
5. A comparison of budget to actual is used as a management control device during the year for all funds.
6. The expenditures of a given fund may not legally exceed its appropriations.
7. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.
8. The level of control for adopted budgets is at the fund level.
9. Any unexpended appropriation balances automatically lapse at year-end.

### **Encumbrances**

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances at year-end represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders in process are completed. Encumbrances outstanding at year-end for unfulfilled obligations of the current year budget are reappropriated in the succeeding year.

## **E. ASSETS, LIABILITIES, AND NET POSITION**

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. This amount is classified on the balance sheet as equity in pooled investments. The interest on these investments is credited to the General Fund. Cash and equivalents include cash on hand, cash in banks, and petty cash funds.

2. Investments

The City Treasurer invests all temporary cash surpluses. For reporting purposes, these pooled investments are stated at fair value or amortized cost, which approximates fair value.

All other noncurrent investments are valued at fair value. Fair values are based on published market prices or from national security exchanges and security pricing services. Additional disclosure describing investments is provided in Note 2.

### 3. Receivables

Accounts receivable are stated net of allowances for uncollectible accounts. Estimated unbilled accounts receivable for the Water, Sewer and Solid Waste funds have been recognized as revenue. Accrued interest receivable consists of amounts earned on investments, notes and contracts at year end.

### 4. Amounts Due to and from Other Funds and Governments and Interfund Loans

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either *Interfund Loans Receivable*, *Advances to Other Funds*, *Interfund Loan Payable* or *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".

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

### 5. Inventories

Inventories are valued at average cost. The inventories of governmental funds, parks fund, proprietary funds, water warehouse, water meter shop, wastewater treatment plant and utilities garage are maintained on a perpetual inventory system. Other reported inventories are determined by physical count.

Reported inventories in governmental funds consist of expendable supplies held for consumption. The cost thereof has been recorded as an expenditure at the time individual inventory items were purchased (purchase method). Reported inventories in these funds are fully offset by a fund balance reserve, which indicates they are unavailable for appropriation. A comparison to market value is not considered necessary.

### 6. Restricted Assets

The proceeds of enterprise fund revenue bonds, as well as other resources, are restricted by applicable bond ordinances for construction costs and debt service payments. The current portion of related liabilities is shown as Payables from Restricted Assets. Owners and operators of Solid Waste Landfill units are required under the Washington Administrative Code to establish financial assurance for closure and post-closure monitoring of those units.

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

<b>Fund</b>	<b>Amount</b>
Equity in Pooled Investments - Landfill Liability	10,722,137
Current portion of revenue bonds payable	7,002,316
<b>Total</b>	<b>17,724,453</b>

7. Other Noncurrent Assets

Other Long-Term Assets include long-term Contracts Receivable in the Sewer fund and Other Long-Term Assets in the Solid Waste fund.

8. Unavailable Revenue

Unavailable revenue includes deferred inflows of resources such as property taxes and special assessment receivables, as well as revenues collected in advance for golf.

9. Capital Assets (see Note 4)

Except as noted below, it is the city's policy to capitalize:

- All land;
- All city computers
- All additions and improvements to the city's road system;
- Intangible assets;
- Buildings, building improvements, and leasehold improvements with a cost of \$5,000 or more; and
- All other capital assets with a unit cost of \$5,000 or greater

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

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

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

Category	Useful Life (in Years)
Buildings & Improvements	50-60
Infrastructure	40-60
Light/Heavy Duty Vehicles	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

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

#### 10. Compensated Absences

Employees accrue ten days of vacation leave per year for up to five years of service. From five to twenty years, three to four weeks are accrued depending on length of service; five weeks are accrued at the beginning of the twentieth year, and six weeks are accrued at the beginning of the thirtieth year. An employee may accumulate paid vacation leave not to exceed two hundred hours or two times the employee's annual leave accrual, whichever is greater. The City has a policy of payment of the full amount of unused vacation leave up to the maximum accrual allowed upon termination or retirement.

The sick leave policy of the City varies according to the contract provisions of the various bargaining units. The most generous provision provides vesting, after five years of service, of 25% of the recorded sick leave at the date of resignation, and 40% upon retirement. There is no cash payment until resignation or retirement and the maximum payout cannot be in excess of 960 hours for any employee.

All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. An additional amount has been accrued for the government's share of Social Security and Medicare Taxes relating to the vacation and sick leave accrual.

#### 11. Long-Term Liabilities (See Note 9)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line or bonds-outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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.

#### 12. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to debt refunding and pensions.

Deferred outflows on debt refunding result when the net carrying value of refunded debt exceeds its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are

provided with pensions through each pension plan. City contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the city relate to unavailable revenue, debt refunding, and pensions.

Unavailable revenue arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report deferred inflows for unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

Deferred inflows on refunding result when the reacquisition price of the refunding debt exceeds the net carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

### 13. Governmental Fund Balance

The city's governmental fund balance balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- **Nonspendable.** Balances that either are not in a spendable form or are legally or contractually required to remain intact.
- **Restricted.** Balances that are restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments.
- **Committed.** Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the city, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.
- **Assigned.** Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed. Because the city's CFO is identified by the City of Spokane's Municipal Code as the custodian of all city funds, it is the CFO's responsibility (or their delegate) to provide the proper record keeping services needed to appropriately segregate and identify all fund balances overseen by the custodian.
- **Unassigned.** Residual balances that are not constrained in the other classifications.

For purposes of fund balance classification, 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. When unrestricted resources are used, committed resources are used first followed by assigned and unassigned resources respectively.

The detail of the governmental funds committed and assigned fund balances at December 31, 2016 are shown below:

<b>Fund Balance</b>	<b>General Fund</b>	<b>Nonmajor Government Funds</b>	<b>Total</b>
<i>Nonspendable:</i>			
Interfund loans receivable	1,285,800	-	1,285,800
<b>Total Nonspendable Fund Balance</b>	<b>1,285,800</b>	<b>-</b>	<b>1,285,800</b>
<i>Restricted for:</i>			
Capital projects	-	87,615,038	87,615,038
Debt service	-	4,585,958	4,585,958
Grants	607,551	27,745,012	28,352,563
Police/firefighters' pension	-	959,880	959,880
Other	-	88,032	88,032
<b>Total Restricted Fund Balance</b>	<b>607,551</b>	<b>120,993,920</b>	<b>121,601,471</b>
<i>Committed for:</i>			
Revenue stabilization	704,165	-	704,165
City facilities	-	159,117	159,117
Communication	-	5,118,454	5,118,454
Transportation	94,373	5,566,810	5,661,183
Public safety	2,068,276	4,325,000	6,393,276
Culture and recreation	-	6,729,697	6,729,697
Benefits	-	28,879	28,879
<b>Total Committed Fund Balance</b>	<b>2,866,814</b>	<b>21,927,957</b>	<b>24,794,771</b>
<i>Assigned for:</i>			
Contingency reserve	14,258,094	-	14,258,094
General Government	1,089,502	-	1,089,502
Library capital replacement	1,408,174	-	1,408,174
Communication	-	-	-
Human Services	-	948,214	948,214
Law enforcement	-	415,316	415,316
Fire protection	-	-	-
Transportation	-	-	-
Culture and recreation	-	300,000	300,000
Code enforcement	238,417	-	238,417
City facilities/improvement	83,950	3,921,808	4,005,758
Benefits	-	-	-
Other purposes	22,569	-	22,569
<b>Total Assigned Fund Balance</b>	<b>17,100,706</b>	<b>5,585,338</b>	<b>22,686,044</b>
<i>Unassigned:</i>	<b>19,049,126</b>	<b>-</b>	<b>19,049,126</b>
<b>Total</b>	<b>40,909,997</b>	<b>148,507,215</b>	<b>189,417,212</b>

Fund balance has been restated as follows:

	Fund Balance at 12/31/15	Fund Reclassification	Fund Balance as restated 01/01/16
<b>Governmental Funds</b>			
General Fund	\$ 41,300,350	\$ (226,578)	\$ 41,073,772
Traffic Calming Fund	1,668,155	100,000	1,768,155
GO Bond Redemption Fund	7,088,022	126,578	7,214,600
<b>Total</b>	<b>\$ 50,056,527</b>	<b>\$ -</b>	<b>\$ 50,056,527</b>

#### 14. Budgetary Reserves/Control

**Contingency Reserve.** This account was established in 2001 in the Spokane Municipal Code. At each budget cycle commencing with year 2001 and every year thereafter, an amount from the unappropriated general fund fund balance at each year end shall be appropriated to the contingency reserve account. Additional funds may be added to the contingency reserve account in such amounts and at such additional times during the ensuing budget year in accordance with standard emergency budget ordinance procedures.

Disbursements from this account are for the purpose of meeting extraordinary expenditures and are governed by the following criteria:

1. Unforeseen circumstances arising after the adoption of the annual budget which require an unavoidable and non-continuing allocation; or
2. Unforeseen emergency threatening health and/or safety of the citizens; or
3. Unanticipated non-continuing expenses are needed to fulfill an unfunded legislative mandate; or
4. Significant operating efficiencies can be achieved resulting in clearly identified near-term and offsetting cost savings. Appropriations from this account are only approved by the standard emergency budget ordinance procedure.

**Revenue Stabilization.** At each and every year, commencing with the 2008 budget, amounts from the unappropriated general fund fund balance shall be appropriated to the revenue stabilization account until such time the account is funded to the targeted funding level. The initial targeted funding level within the revenue stabilization account was three and one-half percent of budgeted general fund revenues.

Disbursements from the revenue stabilization account may be made to mitigate a general fund revenue shortfall deemed by the City Council to meet the following criteria:

1. Revenue shortfall results from revenue collections considered to be materially short of the amount budgeted, or the revenue shortfall results from projected baseline (existing) budgeted revenues for any ensuing year increasing by less than the assumed long-term revenue growth rate in the City's six-year general fund projection for the immediate year; and
2. The revenue shortfall is expected to persist through the end of the fiscal year; and
3. The revenue shortfall is reasonably expected to persist for a period no longer than three years. A revenue shortfall expected to persist beyond three years shall be directly addressed in the current annual budget process through long-term budget measures.

Disbursements from the revenue stabilization account may include amounts budgeted in the general fund to supplement revenue shortfalls that occur in other city funds. Appropriations from this account are only approved by the standard emergency budget ordinance procedure.

Park Fund Reserve. The Parks Fund is overseen by an independent board of commissioners. This board approved a reserve of three percent of the annual budget to be maintained for emergencies, risk management and economic uncertainty. All appropriations from this reserve account require prior Parks Board approval unless previously specifically authorized for expenditure in the annual budget.

#### 15. Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations which have not yet been fulfilled, cancelled, or discharged. At December 31, 2016, \$58.4 million was carried forward to the subsequent budget year as follows, and have been classified as assigned fund balance unless the fund's net position was already classified as restricted net position as follows:

<b>Fund</b>	<b>Amount</b>
General Fund	1,263,039
Nonmajor Governmental Funds	57,178,106
<b>Total</b>	<b>58,441,145</b>

#### F. Other Significant Accounting Policies

##### Budgeting, Accounting and Reporting System (BARS)

The State of Washington Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS). The purpose of the BARS manual is to provide for uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington. The City has established its own chart of accounts for accounting purposes and converts to BARS accounts for State reporting.



## Note 2

### Cash and Investments

#### Deposits and Investments

The City has the authority to invest in pooled investments (Treasurer's Cash Investments), individual securities and fund investments. The Chief Financial Officer has the authority to determine the availability of funds for pooled and fund investments along with individual security purchases and take into consideration such needs as requests of individual fund managers, current cash needs, and asset/liability matching necessary to optimize interest earnings. Interest earnings on Treasurer's Cash Investments are credited to the General Fund.

#### Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the city would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The City deposits funds only with State of Washington financial institutions approved as qualified public depositories by the Washington State Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool. The city's bank balance is insured by the FDIC up to \$250,000 and fully collateralized by the Washington Public Deposit Protection Commission (WPDPC) for amounts over \$250,000.

The city's investment policy requires that all investments be held by the city's third party safekeeping agent in the city's name. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank. As of December 31, 2016, all of the \$495.7 million investments in U.S. agency debt obligations were registered, and held by its safekeeping agent in the city's name. Therefore, the city has no outstanding investments that were exposed to custodial credit risk.

#### Investment Policy

##### City Treasurer Investments

The city's investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the primary objectives of safety and liquidity. Core investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

Authority to manage the City's investment program is derived from Spokane Municipal Code 7.15 which delegates responsibility for the City's investment program to the City Investment Committee and daily management responsibility assigned to the City Treasurer. City investment decisions are governed by the "prudent person rule".

There were no significant investment policy changes during the reporting period.

### **Employees' Retirement System**

The Spokane Employees' Retirement System's (SERS) investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by the "prudent person rule". SERS investments are categorized by type to give an indication of the level of risk assumed by SERS.

The Board of Administration for SERS maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, an actuarial firm, an independent investment consultant and an auditor. Investment manager contracts include specific guidelines regarding the investments under management. All investments are held in custody. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, monitors the fund on a regular basis.

The Spokane Employees' Retirement System's policy regarding the allocation of invested assets is established, and may be amended, by a majority vote of the SERS Board. It is the policy of the SERS Board to pursue an investment strategy that meets the projected return requirements while minimizing volatility by diversifying the portfolio across a broad selection of distinct asset classes. The SERS investment policy limits the use of cash equivalents to meeting liquidity requirements and reviews rebalancing needs at least quarterly. The investment policy was updated during the reporting period to reflect the new target allocations resulting from an asset allocation study.

### **Firefighters' Pension System**

The Firefighters' Trust Fund investments are restricted by RCW 41.16.040 and other RCWs as listed in RCW 41.16.040. Authorized investments include investment grade securities issued by the United States, state, municipal corporations, other public bodies, corporate bonds and other investments authorized by RCW. Per the Board's policy, all fixed income securities shall be investment grade or higher at the time of purchase. The overall portfolio average quality must be A+ or higher. There were no significant investment policy changes during the reporting period.

### **Police Pension System**

The Police Pension System operates on a "pay as you go" basis with all funds provided by the City on an as needed basis. All assets are held in cash to pay monthly pension benefits and all other claims as they are received. There were no significant investment policy changes during the reporting period.

## **Investments**

### **City Treasurer Investments**

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, bankers' acceptances, commercial paper, and repurchase agreements. The pension trust funds operate under different guidelines. City investments and those of the pension trust funds are all reported at fair market value. Below is a list of city investment limitations.

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio
US Treasury Securities	5 years	100%
Federal Agency Securities	5 years	90%
Individual Issues	5 years	10%
Individual Agency	5 years	40%
FDIC Guaranteed Senior Debt	5 years	30%
Individual Issuer	5 years	10%
Washington State Local Government Investment Pool	90 Days	100%
Non-Negotiable CDs (PDPC Qualified)	5 years	60%
Individual Issuing Bank	5 years	10%
PDPC Financial Institution Accounts	5 years	10%
Banker's Acceptables (must be A1/P1)	5 years	10%
Individual Banks	5 years	2%
Repurchase Agreements	5 years	25%
General Obligation Debt - State/Local	5 years	10%
City of Spokane Notes/Bonds	5 years	15%
Commerical Paper (must be A1/P1)	5 years	10%
Individual Issuer	5 years	2%

### Employees' Retirement System

The SERS Board has an asset allocation policy that includes an allocation to alternative investments. Funding of these limited partnerships began in 2007 and continues on an ongoing basis. The term "alternative investments" encompasses a broad category of investments other than traditional asset classes of equities, fixed income and real estate. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant, reviewed by staff, and approved the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets can add value to the portfolio over time through diversification and higher expected returns. The CIO and Board believe that the use of alternative investments increases the expected return of the plan compared to investing only in traditional asset classes.

The following table shows the City's cash and investments at December 31, 2016:

Deposit Type	Value
<b>Reconciliation of Restricted/Unrestricted Cash and Investments:</b>	
Cash	\$ 13,361,939
Petty Cash	500,244
Deposits with Fiscal Agents	1,187,409
Other	34,684
Investments	495,746,535
	<b>510,830,811</b>

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in the market interest rates.

**City Treasurer Investments**

According to its investment policy, the City manages its exposure to interest rate risk by “purchasing a combination of shorter-term and longer-term investments.” The city focuses on timing cash flows from maturities so that a portion of the portfolio is maturing as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

**Employees’ Retirement System**

Although the SERS Investment Policy does not specifically limit interest rate risk, the System’s fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the staff.

**Spokane Firefighters’ Trust Fund**

The Fire investment policy targets that the average portfolio duration will be 2.5 to 5 years, with no duration limits on individual holdings.

**Police Pension System**

The Police investment policy requires all assets to be held in cash which does not have any interest rate risk.

The following table shows the City’s invested assets and the pension fund assets by investment type, market value, segmented maturities and by the average effective duration as of December 31, 2016.

		Maturity				
Interest Rate Risk	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Effective Duration (in years)
City Treasurer Investments Categorized						
US Government Agencies	415,888,920	44,410,265	181,643,164	189,835,491	-	4.24
Strip Bonds	79,857,615	23,701,112	14,281,350	14,653,020	27,222,133	6.89
Total investments categorized	495,746,535	68,111,377	195,924,514	204,488,511	27,222,133	
Pension Trust Funds						
Employees' Retirement System						Average Maturity
Fixed Income Mutual Funds	22,783,633	-	22,783,633	-	-	4.11
Corporate Notes and Bonds	8,200,454	233,116	2,526,540	2,761,156	2,679,642	12.40
Asset Backed Securities	6,228,603	-	2,233,124	456,844	3,538,635	19.40
Governmental CMOs	2,925,414	-	-	-	2,925,414	24.17
Municipal Bonds	1,630,889	193,218	883,341	444,995	109,335	5.47
Mortgage Backed						
Governmental Passthrough	1,177,289	-	-	591,579	585,710	17.51
U.S. Government Treasuries	526,905	-	433,687	-	93,218	6.38
	-					-
Total investments categorized	43,473,187	426,334	28,860,325	4,254,574	9,931,954	
Investments not required to be categorized:						
Cash and cash equivalents	955,792	-	-	-	-	-
Equity securities	144,325,988	-	-	-	-	-
Real estate	23,739,250	-	-	-	-	-
Alternative investments	64,250,771	-	-	-	-	-
Total investments not categorized	233,271,801	-	-	-	-	
Total Investments	276,744,988	426,334	28,860,325	4,254,574	9,931,954	
Firefighters' Pension System						
US Government Treasuries	11,346,567	4,345,217	2,777,027	4,224,323	-	4.10
Mortgage Backed Securities						
Government Pass Through	7,932,656	26,112	3,351,938	3,737,261	817,345	7.30
Government CMOs	1,497,181	-	-	664,235	832,946	11.63
Corporate Bonds/Notes	8,258,770	1,036,687	7,185,311	36,772	-	2.42
Asset Backed Securities	849,882	-	421,621	170,411	257,850	7.35
Total investments categorized	29,885,056	5,408,016	13,735,897	8,833,002	1,908,141	
Investments not required to be categorized:						
Cash and cash equivalents	449,945	-	-	-	-	-
Total investments not categorized	449,945	-	-	-	-	
Total Investments	30,335,001	5,408,016	13,735,897	8,833,002	1,908,141	
Police Pension System						
Investments not required to be categorized:						
Cash and cash equivalents	498,181	-	-	-	-	-
Total Investments	498,181	-	-	-	-	

## Credit Risk

### City Treasurer Investments

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the end of the year 2016 for each type of investment. AAA is the highest rating for bonds. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. It constitutes a fully insured or fully collateralized pool.

All securities registered in the City's name carry a minimum rating of Aa2/AA from Moody's and/or Standard and Poor's respectively.

### Employees' Retirement System

Although the SERS Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. SERS' fixed income assets are comprised of one institutional mutual fund and one separately managed account targeting different levels of credit risk.

### Spokane Firefighters' Trust Fund

The Fire investment policy requires that all fixed income securities shall be investment grade or higher at the time of purchase. Specifically, fixed income securities shall not be rated lower than BBB- by Standard & Poor's rating at the time of purchase and any securities subsequently downgraded require specific written permission to hold. The average quality for the overall portfolio must be A+ or higher.

### Police Pension System

The Police investment policy requires that all assets are held in cash which bears no credit risk.

The following table shows the City's investment pool assets and the Pension Fund assets by credit rating and market value as of December 31, 2016.

				Investment Credit Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	Not Rated
Spokane Investment Pool								
US Government Agencies	415,888,920	18,145,825	397,743,095	-	-	-	-	-
Strip Bonds	79,857,615	75,993,195		-	3,864,420	-	-	-
Total	495,746,535	94,139,020	397,743,095	-	3,864,420	-		-
Employees' Retirement System								
Hotchkis & Wiley High Yield Fund Class I	22,783,633	-	-	-	-	-	22,783,633	-
Corporate Notes and Bonds	8,200,455	53,297	434,535	2,326,882	5,385,741	-	-	-
Asset Backed Securities	6,228,604	5,252,929	877,721	-	-	-	-	97,954
Governmental CMOs	2,925,414	-	-	-	-	-	-	2,925,414
Municipal Bonds	1,630,888	51,139	1,555,483	24,266	-	-	-	-
Mortgage Backed								
Governmental Passthrough	1,177,289	561,671	-	-	-	-	-	615,618
U.S. Government Treasuries	526,905	526,905						
Total	43,473,188	6,445,941	2,867,739		5,385,741	-	22,783,633	3,638,986
Firefighters' Pension System								
US Government Treasuries	11,346,567	-	11,346,567	-	-	-	-	-
Mortgage Backed Securities								
Government Pass Through	7,932,656	366,558	7,566,098	-	-	-	-	-
Government CMOs	1,497,181	-	1,497,181	-	-	-	-	-
Corporate Bonds/Notes	8,258,769	-	383,610	3,725,293	4,135,656	14,210	-	-
Asset Backed Securities	849,883	-	597,287	252,596	-	-	-	-
Total	29,885,056	366,558	21,390,743	3,977,889	4,135,656	14,210	-	

### Concentration of Credit Risk

### City Treasurer Investments

Concentration risk disclosure is required for all investments in any one issue that is 5% or more of the total of the City's investments. The following include Financial, State, or Municipal Government and Government Sponsored Agencies. The City did not have any holdings in organizations that represent five percent or more of the Governmental Activities net position.

### Employees' Retirement System

SERS' has no holdings by an issuer that represent five percent or more of SERS' investments. SERS holdings in organizations that manage five percent or more of the Plan's fiduciary net position at December 31, 2016 were:

Organization	% of Net Position
<b>City of Spokane Employees' Retirement System</b>	
Hotchkis & Wiley	14.1%
Sterling Capital Management	9.9%
Artisan Partners	7.0%
Vanguard Funds	6.7%
MFS Investment Management	6.4%
American Funds	6.4%
Evanston Capital Management	5.3%
Jackson Square	5.2%

### Firefighters' Pension System

The Firefighters' Trust Fund holdings in issuers that represent five percent or more of the Plan's fiduciary net position at December 31, 2016 were:

Organization	% of Net Position
<b>City of Spokane Firefighter's Pension System</b>	
US Treasury Notes	37.6%
Fannie Mae	22.1%
Freddie Mac	7.2%

### Police Pension System

The Police Pension System did not have any holdings in organizations that represent five percent or more of the System's fiduciary net position.

### Foreign Currency Risk

### City Treasurer Investments

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The City investment policy requires all assets to be held in US Dollars. At December 31, 2016, there were no holdings exposed to foreign currency risk.

### **Employees' Retirement System**

At December 31, 2016, 26.0% of the System's portfolio is invested in foreign issued securities, which primarily consist of equities, fixed income and alternative investments. The SERS Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of fund managers. The fair market value of the foreign investments as of December 31, 2016 was:

Category	Total Investments	US Issues	Foreign Issues	% Foreign
Cash	955,792	955,792	-	0.00%
Fixed Income	43,473,187	38,299,949	5,173,237	11.90%
Equities	144,325,988	87,020,589	57,305,399	39.70%
Real Estate	23,739,250	23,568,003	171,247	0.70%
Alternatives	64,250,771	54,858,421	9,392,350	14.60%
<b>Total</b>	<b>276,744,988</b>	<b>204,702,755</b>	<b>72,042,233</b>	<b>26.00%</b>

### **Spokane Firefighters' Trust Fund**

The Fire investment policy does not allow investments in foreign issuances. At December 31, 2016, there were no holdings exposed to foreign currency risk.

### **Police Pension System**

The investment policy requires all asset to be held in US Dollars. At December 31, 2016, there were no holdings exposed to foreign currency risk.

### **Fair Value Measurement**

The city categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. In accordance with GASB Statement 72 – Fair Value Measurement and Application, the following hierarchy is utilized:

- Level 1 – Quoted prices for an identical asset in an active market
- Level 2 – Market value where prices are determined using observable inputs
- Level 3 – Market value where prices are determined using unobservable inputs

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fixed income and equity investments classified as Level 1 in the fair value hierarchy are valued directly from a predetermined primary external pricing vendor.

Investments classified as Level 2 represent proportional ownership in a Collective Investment Trust (CIT). All assets in the CIT have observable prices in active markets, with the fair value of the CIT representing a proportionate share of all underlying assets held in the CIT.



The following table presents fair value measurements as of December 31, 2016:

Investment by fair value level	12/31/2016	Investments by Fair Value Level			(NAV)
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Spokane Investment Pool</b>					
US Government Agencies	415,888,920	415,888,920	-	-	-
Strip Bonds	79,857,615	79,857,615	-	-	-
<b>Total</b>	<b>495,746,535</b>	<b>495,746,535</b>	-	-	-
<b>Pension Trust Funds</b>					
<b>Employees' Retirement System</b>					
Cash Equivalents	955,792	955,792	-	-	-
<b>Total Cash Equivalents</b>	<b>955,792</b>	<b>955,792</b>	-	-	-
US Government	4,629,608	4,629,608	-	-	-
US Corporate Fixed Income	7,374,334	7,374,334	-	-	-
International Fixed Income	826,120	826,120	-	-	-
Asset Backed Securities	6,228,604	6,228,604	-	-	-
Municipal Bonds	1,630,888	1,630,888	-	-	-
Fixed Income Mutual Funds	22,783,633	22,783,633	-	-	-
<b>Total Fixed Income</b>	<b>43,473,187</b>	<b>43,473,187</b>	-	-	-
<b>Investments not required to be categorized:</b>					
US Common Stock	23,085,045	23,085,045	-	-	-
International Common Stock	1,179,782	1,179,782	-	-	-
Equity Mutual funds	117,459,273	99,626,094	17,833,179	-	-
<b>Total Equities</b>	<b>141,724,100</b>	<b>123,890,921</b>	<b>17,833,179</b>	-	-
<b>Real estate</b>	<b>11,228,994</b>	-	-	-	<b>11,228,994</b>
<b>Alternative investments</b>	<b>79,362,915</b>	-	-	-	<b>79,362,915</b>
<b>Total - All Investments</b>	<b>276,744,988</b>	<b>168,319,900</b>	<b>17,833,179</b>	-	<b>90,591,909</b>
<b>Firefighters' Pension System</b>					
US Government Treasuries	11,346,567	11,346,567	-	-	-
Mortgage Backed Securities					
Government Pass Through	7,932,656	7,932,656	-	-	-
Government CMOs	1,497,181	1,497,181	-	-	-
Corporate Bonds/Notes	8,258,770	8,258,770	-	-	-
Asset Backed Securities	849,882	849,882	-	-	-
<b>Total</b>	<b>29,885,056</b>	<b>29,885,056</b>	-	-	-

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below:

Investment Category	Net Asset Value (NAV)	Unfunded Commitments	Redemption Frequency	Redemption Notice
Equity Fund	15,112,144	-	Monthly	15-90 Days
Long/Short Hedge Fund	29,263,011	-	Quarterly	60-65 Days
Real Estate Fund	11,228,994	2,953,592	N/A	N/A
Absolute Return Hedge Fund	22,177,939	-	Monthly, Quarterly, Semi-Annually	N/A
Closed-End Hedge Fund	4,063,926	3,457,500	N/A	N/A
Fixed Income Fund	8,745,895	-	Quarterly	90 Days
<b>Total</b>	<b>90,591,909</b>	<b>6,411,092</b>		

Equity Fund: One international fund and one US fund that invest long-only in less liquid markets seeking to capture an illiquidity premium. The international fund is a fund of funds and is valued based on the net asset value provided for each of the underlying units. The US fund unit net asset value is based on the value of the underlying holdings.

Long/Short Hedge Fund: Three funds that invest long and short to generate outsize risk-adjusted returns. Two funds are valued at net asset value of units held based on underlying holdings. One fund is a fund of funds and is valued based on the net asset value provided for each of the underlying units.

Real Estate Fund: Five funds that invest primarily in commercial real estate properties and debt instruments. The fair values of these funds has been determined using net assets valued based on the appraised value of the holdings. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5 to 10 years.

Absolute Return Hedge Fund: Four funds that seek to generate consistent positive returns with low volatility and low net market exposure. Each fund's unit net asset value is based on the value of the underlying holdings.

Closed-End Hedge Fund: One fund that invests primarily in medical royalty streams or securities associated with the royalties. The fair value of the funds is determined using discounted cash flow models based on expected future cash flows. The fund is not eligible for redemption. Distributions are received as underlying investments within the funds generate cash flows, which on average can occur over the span of 5 to 10 years.

Fixed Income Fund: One fund that invests in less liquid or distressed debt securities. The US fund unit net asset value is based on the value of the underlying holdings.

## Note 3

### Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The county assessor is responsible for determining what the individual property taxes are, based upon the monies requested by the taxing districts and the assessed valuation within these districts. The property tax timeline is as follows:

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 due
May 31	Assessed value of property established for next year's levy at 100% of market value
October 31	Second of two equal installment payments due

In governmental funds, property taxes are recorded as receivables when levied, offset by a deferred inflow of resources. Property taxes collected within 60 days after year-end are considered measurable and available and are recognized as revenues in the fund statements. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. Special levies approved by the voters are not subject to the limitations listed above. The following special levies exist:

- Emergency Medical Services
- General Obligation Bonds
- Park Bond (UTGO 2015 Bond)

The following table reflects the levy amounts and tax assessments that will be collected in the subsequent year. See additional information in Schedule 6 of the statistical section.

Property Tax Levy Type	Total Levy (in thousands)	Amount per \$1,000 Assessed Valuation
Regular	56.180	3.524273
EMS	7.846	.492211
Bond	3.427	.221988
Park Bond	2.334	.147968
<b>Total</b>	<b>69.787</b>	<b>4.38644</b>

## Note 4

### Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

Capital Assets		Jan 01, 2016 Beginning Balance		Increases		Decreases		Dec 31, 2016 Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>								
<b>Capital assets not being depreciated</b>								
Land	\$	836,607,640	\$	212,368	\$	(47,629)	\$	<b>836,772,379</b>
Construction in progress		29,270,874		9,531,535		-		<b>38,802,409</b>
<b>Total capital assets, not being depreciated</b>		<b>865,878,514</b>						<b>875,574,788</b>
<b>Capital assets, being depreciated:</b>								
Buildings	x	87,831,632		7,250		(267,883)		<b>87,570,999</b>
Accumulated depreciation		(40,829,988)		(1,241,364)		34,793		<b>(42,036,559)</b>
Net buildings		<b>47,001,644</b>						<b>45,534,440</b>
Other improvements		86,423,030		2,714,024		(10,777)		<b>89,126,277</b>
Accumulated depreciation		(36,706,566)		(4,108,914)		6,466		<b>(40,809,014)</b>
Net other improvements		<b>49,716,464</b>						<b>48,317,263</b>
Machinery and equipment <sup>1</sup>		91,742,181		12,044,750		(4,543,052)		<b>99,243,879</b>
Accumulated depreciation		(65,204,339)		(7,618,340)		3,697,923		<b>(69,124,755)</b>
Net machinery and equipment		<b>26,537,842</b>						<b>30,119,124</b>
Infrastructure		1,038,981,849		21,930,417		(9,591,432)		<b>1,051,320,834</b>
Accumulated depreciation		(497,980,753)		(23,471,437)		4,935,204		<b>(516,516,986)</b>
Net infrastructure		<b>541,001,096</b>						<b>534,803,848</b>
Intangible assets		5,573,266				(274,182)		<b>5,299,084</b>
Accumulated depreciation		(1,679,199)		(65,239.44)		-		<b>(1,744,438)</b>
Net intangible assets		<b>3,894,067</b>						<b>3,554,646</b>
Total Capital assets, being depreciated (net)		<b>668,151,112</b>						<b>662,329,321</b>
<b>Governmental Activities, Capital Assets (net)</b>	\$	<b>1,534,029,626</b>					\$	<b>1,537,904,109</b>

Capital Assets	Jan 01, 2016 Beginning Balance	Increases	Decreases	Dec 31, 2016 Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ 14,535,823	\$ 3,500	\$ (689,512)	\$ 13,849,811
Construction in progress	\$ 56,509,459	\$ 44,413,131	(37,658,160)	63,264,430
<b>Total capital assets, not being depreciated</b>	71,045,282			77,114,241
<b>Capital assets, being depreciated:</b>				
Buildings	301,411,780	\$ 18,380,064	-	319,791,844
Accumulated depreciation	(185,540,349)	(8,972,479)	-	(194,512,828)
Net buildings	115,871,431			125,279,016
Other improvements	99,893,913	\$ 6,801,211	(1,886,412)	104,808,712
Accumulated depreciation	(42,646,965)	(7,069,025)	875,834	(48,840,156)
Net other improvements	57,246,948			55,968,556
Machinery and equipment	151,004,097	\$ 4,947,798	(5,572,887)	150,379,008
Accumulated depreciation	(85,747,268)	(9,016,178)	4,665,748	(90,097,698)
Net machinery and equipment	65,256,829			60,281,310
Infrastructure	525,502,441	\$ 25,606,862	(808,439)	550,300,864
Accumulated depreciation	(162,276,914)	(9,382,644)	407,796	(171,251,762)
Net infrastructure	363,225,527			379,049,101
Intangible assets	113,766	-	-	113,766
Accumulated amortization	(77,361)	(2,275)	-	(79,636)
Net intangible assets	36,405			34,130
Total Capital assets, being depreciated (net)	601,637,140			620,612,114
<b>Business-Type Activities, Capital Assets (net)</b>	<b>\$ 672,682,422</b>			<b>\$ 697,726,355</b>
<b>DEPRECIATION</b>				
<b>Governmental Activities:</b>				
General government				\$ 967,902
Judicial				70,324
Public safety				3,563,948
Interest on Long term debt				190,011
Transportation				24,169,287
Economic environment				728,983
Mental and physical health				70,959
Culture and recreation				6,743,880
<b>Total Depreciation Expense - Governmental Activities</b>				<b>\$ 36,505,294</b>
<b>Business-Type Activities:</b>				
Water/Sewer				\$ 22,092,339
Solid Waste				11,691,138
Other				659,124
<b>Total Depreciation Expense - Business-Type Activities</b>				<b>\$ 34,442,601</b>

## Note 5

### Pension Plans

#### A. GENERAL

The City administers three single-employer, defined benefit retirement plans:

- Spokane Employees' Retirement System (SERS)
- Spokane Firefighters' Pension
- Spokane Police Relief and Pension

The Law Enforcement Officers' and Fire Fighters' (LEOFF) system is a contributory multi-employer cost-sharing system operated by the State of Washington.

#### B. PLAN DESCRIPTIONS

##### **Spokane Employees' Retirement System**

The Spokane Employees' Retirement System (SERS) is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented within the fiduciary funds of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are required to join SERS with the exception of elected official who have the option to join SERS and police or firefighters who are members of the Washington State Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

Management of SERS is vested in the SERS Board, which consists of seven members—three members are elected by active employee plan members, three members are appointed by the Spokane City Council, and one member (who may not be an elected official or employee of the city) is appointed by the other six Board members.

SERS provides retirement, death, and disability benefits. All employees hired before January 1, 2009, who participate in SERS, are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.50%. Employees hired prior to January 1, 2009, have a choice at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.00% multiplier with a service cap of 35 years.

All employees hired on or after January 1, 2009, who participate in SERS, are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age, plus years of service, equal to 75 or reach the normal retirement age of 62. Their retirement benefits are calculated by multiplying 2.00% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.00%.

All employees hired on or after January 1, 2015, who participate in SERS, are eligible for service retirement after completing seven years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 80 or reach the normal retirement age of 65. Their retirement benefits are calculated by multiplying 2.00% of the member's highest consecutive three-year average salary by the member's years of creditable service, to a maximum of 70.00%.

For all employee groups, benefits may be reduced on an actuarially equivalent basis according to the retirement annuity option selected for themselves and their beneficiaries.

The SERS Board of Administration considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the AAL funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. The AAL funded ratio was less than 90% as of December 31, 2016. The last ad hoc retiree adjustment occurred in 2001. Based on the current AAL funded ratio, it will take continued significant favorable experience in the investment markets or a future increase in contribution levels to raise the funded ratio above the ad hoc threshold.

### **Firefighters' Pension System**

The Firefighters' Pension System is a single-employer defined benefit pension plan established and administered by the City in accordance with the requirements of the Revised Code of Washington.

The plan provides retirement and medical benefits to all firefighters who were hired prior to March 1, 1970 (Pre-LEOFF officers). Firefighters hired on or after March 1, 1970 but before October 1, 1977, (LEOFF 1 officers) receive their pensions from the State of Washington and medical coverage from the City of Spokane. Firefighters hired after October 1, 1977 (LEOFF 2 officers) are not covered by these plans. According to RCW 41.26.090, "[a]ny member having five or more service credit years and having attained the age of fifty years shall be eligible for a service retirement allowance and shall be retired upon the member's written request effective the first day following the date upon which the member is separated from service."

The plan provides death, disability, and medical benefits. The City is responsible for the medical expenses for active and retired employees covered under this plan.

The Board consists of five members—the Mayor or his/her designated representative who shall be an elected official of the City, the City Clerk, the Chairperson of finance of City Council and two regularly employed or retired firefighters. The two firefighters select a third eligible member who serves as an alternate in the event of the absence of one of the firefighters.

The Firefighters' Pension Board was established pursuant to the authority of RCW 41.16.020, and its powers, duties and responsibilities are established by state law.

### **Police Relief and Pension System**

The Police Relief and Pension System is a single-employer defined benefit pension plan established and administered by the City in accordance with the requirements of the Revised Code of Washington.

The plan provides retirement and medical benefits to all uniformed police who were hired prior to March 1, 1970 (Pre-LEOFF officers). Police hired on or after March 1, 1970 but before October 1, 1977 (LEOFF 1 officers), receive their pensions from the State of Washington and medical coverage from the City of Spokane. Police hired after October 1, 1977 (LEOFF 2 officers) are not covered by these plans. According to RCW 41.26.090, "[a]ny member having five or more service credit years and having attained the age of fifty years shall be eligible for a service retirement allowance and shall be retired upon the member's written request effective the first day following the date upon which the member is separated from service."

The plan provides death, disability, and medical benefits. The City is responsible for the medical expenses for active and retired employees covered under this plan.

The Board consists of seven members—the Mayor or his/her designated representative who shall be an elected official of the City, the Council President, the City Clerk, the City Treasurer and three active or retired members of the Police Department.

The Police Pension Board was established pursuant to the authority of RCW 41.20.010 and its powers, duties and responsibilities are established by state law.

## **Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2**

LEOFF was established in 1970 by the State Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members 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.

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### **LEOFF 2**

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

### **Plan Membership**

Membership of each City administered plan as well as the LEOFF plans in which the city is a contributing employer, as of the last actuarial valuation, is as follows:



Plan	Inactive Members or Beneficiaries Receiving Benefits	Inactive Members Entitled To But Not Receiving Benefits	Active Plan Members	Total Members	Membership as of the latest actuarial valuation
Employees' Retirement System	1,460	109	1,342	2,911	12/31/2016
Firefighters' Pension System	269	-	1	270	12/31/2016
Police Pension System	210	-	1	211	12/31/2016
LEOFF 1 <sup>1</sup>	7,431	1	62	7,494	6/30/2016
LEOFF2 <sup>1</sup>	4,508	839	17,321	22,668	6/30/2016
<b>Total</b>	<b>13,878</b>	<b>949</b>	<b>18,727</b>	<b>33,554</b>	

### C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

For purposes of measuring the net pension liability, deferred outflows/deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's pension plans and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the City. For this purpose, employee and employer contributions are recorded as revenues in the period in which payroll is due and benefit payments, including refunds of employee contributions, are recognized when due and payable. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Investments are reported at fair value.

#### Stand Alone Statements

The methods and assumptions required for financial reporting are the same methods and assumptions used in determining a plan's funding requirement and are described in the publicly available actuarial reports for the three pension plans administered by the City of Spokane. Those reports may be obtained by writing to the Retirement Department, City Hall, 808 West Spokane Falls Blvd, Suite 604, Spokane, Washington, 99201 or by calling (509) 625-6330.

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; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

## Use of Estimates

Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at year end, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## D. DEPOSITS AND INVESTMENTS

### Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested is presented in a table below for all plans.

### SERS, Firefighters', and Police Pension

The long-term expected rate of return on pension plan investments was determined using statistical methods to determine the best-estimate future real rate of return (net of pension plan investment expense and inflation) based on long-term performance of the major asset classes. These returns are used to determine the estimated portfolio return based on the target asset allocation percentage of each asset class.

### LEOFF 1 & 2

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

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan expense, is shown in the table below:

	SERS	Firefighters'	Police	LEOFF 1	LEOFF 2
Rate of return	6.71%	1.90%	n/a	2.25%	2.48%

### Estimated Rates of Return

Below are the estimated real rates of return for the various pension plans as of December 31, 2016:

Long-Term Expected Real Rate of Return	SERS	Firefighters'	Police	LEOFF 1 <sup>1</sup>	LEOFF 2 <sup>1</sup>
Global equity	6.00%	-	-	6.60%	6.60%
US fixed income	1.50%	1.50%	-	1.70%	1.70%
Long Biased	4.00%	-	-	-	-
Opportunistic Credit	7.00%	-	-	-	-
Real estate	2.20%	-	-	5.80%	5.80%
Private equity	-	-	-	9.60%	9.60%
Tangible assets	-	-	-	4.40%	4.40%

<sup>1</sup>The inflation component used to create the table is 2.2 percent and represents the Washington State Investment Board's most recent long-term estimate of broad economic inflation.

## **Investments**

Each plan's investments may be used only for the benefit of the members of that plan in accordance with the terms of the plan.

No investments were made in loans to or leases with any Plan official, government employer official, or party related to a Plan official.

### **Spokane Employees' Retirement System**

The SERS investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the System. SERS' investments are categorized by type to give an indication of the level of risk assumed by the System.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, an independent investment consultant and an auditor. Investment manager contracts include specific guidelines regarding the investments under management. All investments are held in custody. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' Retirement Director monitors the fund on a regular basis.

The Board has an asset allocation policy that includes an allocation to alternative investments. Funding of these limited partnerships began in 2007 and continues on an ongoing basis. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant, has been reviewed by staff, and approved the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets can add value to the portfolio over time through diversification and higher expected returns. The Retirement Director and Board believe that the use of alternative investments increases the expected return of the plan compared to investing only in traditional asset classes.

### **Firefighters' Pension System**

The investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. Investments are governed by the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the System.

Investments of the trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with an investment manager, a custodian, and an independent investment consultant. The investment manager contract includes specific guidelines regarding the investments under management. All investments are held in custody. The independent investment consultant monitors the fund on a regular basis and provides annual reports to staff and the Board. The Retirement Director monitors the fund on a regular basis.

### **Police Relief and Pension System**

The Police Pension System operates on a "pay as you go" basis with all funds provided by the City on an as needed basis. All assets are held in cash to pay monthly pension benefits and all other claims as they are received.

### Target Asset Allocations

The target asset allocations as of December 31, 2016 were:

Target Allocation	SERS	Firefighters'	Police	LEOFF 1	LEOFF 2
Global equity	50%	-	-	37%	37%
US fixed income	-	100%	-	20%	20%
Global fixed income	15%	-	-	-	-
Long/short and special opportunities	14%	-	-	-	-
Absolute return	10%	-	-	-	-
Real estate	6%	-	-	15%	15%
Private equity	-	-	-	23%	23%
Commodities	4%	-	-	-	-
Tangible assets	-	-	-	5%	5%
Cash	1%	-	-	-	-
	100%	100%	0%	100%	100%

### Methods Used to Value Investments

All fixed income, common stock, and short-term investments are reflected in the Statement of Fiduciary Net Position and are listed at fair market value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, deduct their management fees before the fund itself reports net investment income for the period. These investment expenses are netted against investment income in the Statement of Changes in Fiduciary Net Position to arrive at a net investment income amount.

Investments are exposed to various risks, such as interest rate, market, credit, and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect total net position and the amounts reported in the Statement of Fiduciary Net Position. See Note 2 for additional information related to interest rate and credit risk.

### E. NET PENSION LIABILITY

The components of the net pension liability was calculated based on the actuarial reports dated December 31, 2016 for SERS, Firefighters' and Police, and dated as of June 30, 2016 for LEOFF Plan 1 & 2 are shown in the table below.

Net Pension Liability					
Component	SERS	Firefighters'	Police	LEOFF 1 <sup>1</sup>	LEOFF 2 <sup>1</sup>
Total pension liability	512,023,333	20,957,329	9,534,768	41,853,975	196,054,614
Plan fiduciary net position	272,301,291	15,044,079	615,066	51,788,487	207,897,107
LESS (Public Facilities District)	(600,946)	-	-	-	-
Net pension liability (asset)	<b>239,121,096</b>	<b>5,913,250</b>	<b>8,919,702</b>	<b>(9,934,512)</b>	<b>(11,842,493)</b>
Plan fiduciary net position as a % of total pension liability	53.24%	71.78%	6.45%	123.74%	106.04%
<sup>1</sup> Total pension liability (TPL) calculated by the Office of the State Actuary (OSA)					

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	(9,934,512)	(11,842,493)
State's proportionate share of the net pension asset associated with the employer	(67,196,793)	(7,720,444)
TOTAL	<b>(77,131,305)</b>	<b>(19,562,937)</b>

At December 31, 2016 the City of Spokane's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/15	Proportionate Share 12/31/16	Change in Proportion
<b>LEOFF 1</b>	0.961340%	0.964248%	0.002908%
<b>LEOFF 2</b>	2.001951%	2.036087%	0.034136%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further

employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

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

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

## **F. ACTUARIAL ASSUMPTIONS**

### **SERS, Firefighters & Police Pension Systems**

The total net pension liability was determined by an actuarial evaluation using the following actuarial assumptions, applied to all periods in the measurement. For all three plans, the measurement date was December, 31, 2015.

#### **LEOFF 1 & 2**

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

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

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

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

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

	Employees' Retirement System	Firefighters' Pension System	Police Pension System	LEOFF 1	LEOFF 2
Valuation date	12/31/2015	12/31/2015	12/31/2015	6/30/2016	6/30/2016
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method					
Funding	Level % of pay over not more than 30 years	30-year, closed as of January 1, 2007	30-year, closed as of January 1, 2007	50 year	50 year
Remaining amortization years (closed)	21	21	21		
Asset valuation method	Expected value method with 5-year smoothing and 90-110% market value corridor	Fair market value	Fair market value	Fair market value	Fair market value
Actuarial assumptions					
Investment rate of return	7.5%	4.0%	3.0%	7.50%	7.50%
Projected salary increases <sup>2</sup>	0.0-10.0% <sup>1</sup>	2.5%	2.5%	3.75%	3.75%
Economic inflation	3.0%	2.5%	2.5%	3.00%	3.00%
Cost of living adjustments	0.0%	Based upon 3.5% increase assumption when appropriate, for PPF benefits.	Based upon 3.5% increase assumption when appropriate, for PPF benefits.	N/A	N/A
		Based upon inflation assumption for some PPF benefits and all LEOFF benefits.	Based upon inflation assumption for some PPF benefits and all LEOFF benefits.		
Mortality	1994 Group Annuity Mortality Statistic Table	RP-2000 Mortality Tables	RP-2000 Mortality Tables	RP-2000 Mortality Tables, Combined Healthy Table and Combined Disabled Table	RP-2000 Mortality Tables, Combined Healthy Table and Combined Disabled Table
<sup>1</sup> 0% for members with more than 5 years of services in years 2013, 2014 and 2015. Otherwise, ranges from 3.0% for employees with 16 or more years of service to 10.0%					
<sup>2</sup> Expected to grow by promotions and longevity for LEOFF 1 and 2					

## G. DISCOUNT RATE

### Spokane Employees' Retirement System

The blended discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current 8.25% contribution rate and that city contributions will be made at the same rate. GASB 67 requires the use of a blended discount rate to the extent future contributions are not projected to be sufficient to provide future benefits for the current closed group of plan participants. If that is the case, the expected long-term rate of return on plan assets (7.5%) is used for the period where assets are projected to be sufficient and the current yield on the 20-year AA municipal bonds (3.75 as of 12/31/16; 3.50% as of 12/31/15) is used thereafter.

### Firefighters' Pension System

The discount rate used to measure the total pension liability was 4.0%. This discount rate was used for calculations pursuant to GASB 67 as the plan assets are not projected to be depleted prior to payment of the final benefits.

### Police Relief and Pension System

The discount rate used to measure the total pension liability was 3.0%. This discount rate was used for calculations pursuant to GASB 67 as the plan assets are not projected to be depleted prior to payment of the final benefits.

### LEOFF 1 & 2

The discount rate used to measure the total pension liability was 7.50 %. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table represents the net pension liability calculated using the blended discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower or 1 percent higher than the current rate:

Net Pension (Asset) Liability Sensitivity to the Discount Rate				
Plan	1% Decrease	Current Discount Rate	1% Increase	Current Discount Rate
SERS <sup>1</sup>	301,595,957	239,722,042	187,522,373	5.75%
Firefighters'	8,057,983	5,913,250	4,075,992	4.00%
Police	9,777,443	8,919,702	8,174,705	3.00%
LEOFF 1	(5,901,506)	(9,934,512)	(13,381,834)	7.50%
LEOFF 2	33,209,617	(11,842,493)	(45,681,354)	7.50%
<sup>1</sup> SERS data includes amount related to the Public Facilities District				

## H. PENSION EXPENSE

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



Pension Expense			
Description	SERS	Firefighters'	Police
Service Cost	12,384,960	-	-
Interest Cost	26,359,257	831,429	288,058
Benefit Changes	-	-	-
Experience loss (gain)	1,080,502	-	-
Change in Assumptions	-	-	-
Contributions-Employer	-	-	-
Contributions-Employee	(7,402,905)	-	-
<b>Net Investment Income:</b>			
Expected Return on Investments	-	(576,954)	(18,421)
Investment (gain) loss expensed	(21,048,846)	92,117	3,684
Investment (gain) loss deferred	4,855,457	-	-
Benefits paid, including refunds of employee contributions	-	-	-
Administrative Expense	447,921	30,577	27,666
Amortization	4,620,580	(179,794)	(111,141)
Other Changes	-	-	-
<b>Total Pension Expense</b>	<b>21,296,926</b>	<b>197,375</b>	<b>189,846</b>
LESS (Public Facilities District)	(53,388)	-	
<b>Total Pension Expense</b>	<b>21,243,538</b>	<b>197,375</b>	<b>189,846</b>

## I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. City contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the city's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

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

	SERS		Firefighters'		Police	
	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	23,000,624	-	516,305	-	28,131
Change of Assumptions	-	-	-	-	-	-
Differences Between Expected and Actual Experience	-	18,917,871	(1,823,424)	-	(1,002,305)	-
Change in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-	-	-	-	-
City Contributions Subsequent to the Measurement Date	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>41,918,495</b>	<b>(1,823,424)</b>	<b>516,305</b>	<b>(1,002,305)</b>	<b>28,131</b>

	LEOFF 1		LEOFF 2	
	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	1,009,828	-	4,255,482
Change of Assumptions	-	-	-	44,650
Differences Between Expected and Actual Experience	-	-	-	1,622,743
Change in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-	(230,160)	47,002
City Contributions Subsequent to the Measurement Date	-	-	-	1,576,047
<b>Total</b>	<b>-</b>	<b>1,009,828</b>	<b>(230,160)</b>	<b>7,545,924</b>

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

Amortization of Deferred (Inflows) and Deferred Outflows						
	SERS		Firefighters'		Police	
<b>Recognition Period (Years)</b>	6.0	5.0	9.48	5.0	10.67	5.0
<b>Year</b>	<b>Outflows</b>	<b>Outflows</b>	<b>(Inflows)</b>	<b>Outflows</b>	<b>(Inflows)</b>	<b>Outflows</b>
2017	4,459,342	6,060,591	(229,073)	141,396	(115,606)	8,149
2018	4,459,342	6,060,591	(229,073)	141,396	(115,606)	8,149
2019	4,459,342	6,060,591	(229,073)	141,396	(115,606)	8,149
2020	4,459,342	4,818,851	(229,073)	92,117	(115,606)	3,684
2021	1,080,503	-	(229,073)	-	(115,606)	-
Thereafter	-	-	(678,060)	-	(424,275)	-
<b>Total Deferred (Inflows)/Outflows</b>	<b>18,917,871</b>	<b>23,000,624</b>	<b>(1,823,425)</b>	<b>516,305</b>	<b>(1,002,305)</b>	<b>28,131</b>

Amortization of Deferred (Inflows) and Deferred Outflows				
	LEOFF 1		LEOFF 2	
<b>Recognition Period (Years)</b>	5.0	5.0	5.0	5.0
<b>Year</b>	<b>(Inflows)</b>	<b>Outflows</b>	<b>(Inflows)</b>	<b>Outflows</b>
2017	-	(208,683)	(46,032)	1,529,474
2018	-	(208,683)	(46,032)	(46,573)
2019	-	874,583	(46,032)	3,527,493
2020	-	552,611	(46,032)	2,432,139
2021	-	-	(46,032)	103,391
Thereafter	-	-	-	-
<b>Total Deferred (Inflows)/Outflows</b>	<b>-</b>	<b>1,009,828</b>	<b>(230,160)</b>	<b>7,545,924</b>

## J. FUNDING POLICIES

The tables at the end of this section provide the actual contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of December 31, 2016.

### Spokane Employees' Retirement System

Member and employer contribution rates are established by SMC Chapter 4.14. The funding of SERS is currently based on the entry age normal method. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 8.25% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 8.25% of eligible compensation for a combined total of 16.50%. It is contemplated that the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth. Combined contributions from employees and the employer were \$15.2 million in 2016 and \$14.8 million in 2015.

There are no long-term contracts for contributions outstanding and no legally required reserves.

### **Firefighters' Pension System**

The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plans. The major sources of funding for the Firefighters' Pension fund are property taxes, investment earnings, and the State fire insurance premium tax. Currently, there are no required employee contributions made to these pension plans.

The plan is partially funded with \$30.5 million in total net assets, including those available for other post-employment benefits (see Note 6).

### **Police Relief and Pension System**

The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plans. The major sources of funding for the Police Pension fund is local retail sales and use tax. Currently, there are no required employee contributions made to these pension plans.

All benefits are funded on a pay-as-you-go basis.

### **Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2**

LEOFF 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The City's actual contributions to LEOFF 2 were \$3.1 million for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2016, the state contributed \$60.3 million to LEOFF Plan 2. The amount recognized by the City for its proportionate share of this amount is \$2.0 million.

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016.

The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2016 are as follows:

<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
Employees' Retirement System <sup>1</sup>	8.25%	8.25%
Firefighters' Pension System	0.16%	0.00%
Police Pension System	0.16%	0.00%
LEOFF 1 <sup>2</sup>	0.18%	0.00%
LEOFF 2 <sup>2</sup>	5.23%	8.41%

<sup>1</sup>The annual required contribution was developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

<sup>2</sup>The employer rate includes the employer administrative expense fee currently set at 0.18%.

## K. EMPLOYER CONTRIBUTIONS PAID

The following table presents the City's contributions to cost-sharing plans in accordance with the funding policy. There are no long term contracts for contributions for any of the retirement plans administered by the City.

Actual Contributions	2016	2015 Restated	2014	2013
Employees' Retirement System	7,586,362	7,398,945	6,822,279	6,715,376
Firefighters' Pension System	2,137,287	2,314,579	1,515,765	2,183,389
Police Pension System	766,915	707,300	837,804	845,079
LEOFF 1	469	928	1,294	1,304
LEOFF 2	3,237,717	3,169,951	3,048,949	2,740,733

## L. CHANGES IN BENEFIT PROVISIONS

All employees hired on or after January 1, 2015 who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 80 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive three-year average salary times the member's years of creditable service, not to exceed 70.0%. The normal retirement age for these employees is 65, and vesting occurs after seven years of employment.

## M. GASB 68 SUMMARY RECONCILIATION

	Increase (Decrease)				
	(a)	(b)	(a)-(b)		
<b>Employees' Retirement System</b>	<b>Total Pension Liability</b>	<b>Plan Net Position</b>	<b>Net Pension Liability (NPL)</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Balance, Beginning of Year (Dec 31, 2014)	491,393,125	285,772,821	205,620,304	21,861,162	-
<b>Changes for the year:</b>					
Service Cost	12,384,960	-	12,384,960	-	-
Interest Cost	26,359,257	-	26,359,257	-	-
Benefit Changes	-	-	-	-	-
Experience loss (gain)	6,483,011	-	6,483,011	5,402,509	-
LESS (Public Facilities District)					
Change in Assumptions	-	-	-	-	-
Contributions-Employer	-	7,398,945	(7,398,945)	-	-
Contributions-Employee	-	7,402,905	(7,402,905)	-	-
<b>Net Investment Income:</b>	-	(3,228,439)	3,228,439	-	-
Expected Return on Investments	-	-	-	-	-
Investment (gain) loss expensed	-	-	-	-	-
Investment (gain) loss deferred	-	-	-	19,421,828	-
Benefits paid, including refunds of employee contributions	(24,597,020)	(24,597,020)	-	-	-
Administrative Expense	-	(447,921)	447,921	-	-
Other Changes	-	-	-	-	-
Amortization	-	-	-	(4,620,580)	-
LESS (Public Facilities District)					
<b>Net Changes</b>	<b>20,630,208</b>	<b>(13,471,530)</b>	<b>34,101,738</b>	<b>20,203,757</b>	<b>-</b>
Balance, End of Year (Dec 31, 2015)	<b>512,023,333</b>	<b>272,301,291</b>	<b>239,722,042</b>	<b>42,064,919</b>	<b>-</b>
LESS (Public Facilities District)			(600,946)	(146,424)	
Balance, End of Year (Dec 31, 2015 Net of PFD)			<b>239,121,096</b>	<b>41,918,495</b>	

	Increase (Decrease)				
	(a)	(b)	(a)-(b)		
<b>Firefighters' Pension System</b>	<b>Total Pension Liability</b>	<b>Plan Net Position</b>	<b>Net Pension Liability (NPL)</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Balance, Beginning of Year (Dec 31, 2014)	21,432,740	13,919,970	7,512,770	197,117	2,052,498
<b>Changes for the year:</b>					
Service Cost	831,429	-	831,429	-	-
Interest Cost	-	-	-	-	-
Benefit Changes	-	-	-	-	-
Experience loss (gain)	-	-	-	-	-
Change in Assumptions	-	-	-	-	-
Contributions-Employer	-	2,345,156	(2,345,156)	-	-
Contributions-Employee	-	-	-	-	-
<b>Net Investment Income:</b>	-	116,370	(116,370)	-	-
Expected Return on Investments	-	-	-	-	-
Investment (gain) loss expensed	-	-	-	-	-
Investment (gain) loss deferred	-	-	-	368,467	-
Benefits paid, including refunds of employee contributions	(1,306,840)	(1,306,840)	-	-	-
Administrative Expense	-	(30,577)	30,577	-	-
Other Changes	-	-	-	-	-
Amortization	-	-	-	(49,279)	(229,073)
<b>Net Changes</b>	<b>(475,411)</b>	<b>1,124,109</b>	<b>(1,599,520)</b>	<b>319,188</b>	<b>(229,073)</b>
Balance, End of Year (Dec 31, 2015)	<b>20,957,329</b>	<b>15,044,079</b>	<b>5,913,250</b>	<b>516,305</b>	<b>1,823,425</b>

	Increase (Decrease)				
	(a)	(b)	(a)-(b)		
<b>Police Pension System</b>	<b>Total Pension Liability</b>	<b>Plan Net Position</b>	<b>Net Pension Liability (NPL)</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Balance, Beginning of Year (Dec 31, 2014)	9,951,967	613,023	9,338,944	17,859	1,117,911
<b>Changes for the year:</b>					
Service Cost	288,058	-	288,058	-	-
Interest Cost	-	-	-	-	-
Benefit Changes	-	-	-	-	-
Experience loss (gain)	-	-	-	-	-
Change in Assumptions	-	-	-	-	-
Contributions-Employer	-	734,966	(734,966)	-	-
Contributions-Employee	-	-	-	-	-
<b>Net Investment Income:</b>	-	-	-	-	-
Expected Return on Investments	-	-	-	-	-
Investment (gain) loss expensed	-	-	-	14,737	-
Investment (gain) loss deferred	-	-	-	-	-
Benefits paid, including refunds of employee contributions	(705,257)	(705,257)	-	-	-
Administrative Expense	-	(27,666)	27,666	-	-
Other Changes	-	-	-	-	-
Amortization	-	-	-	(4,465)	(115,606)
<b>Net Changes</b>	<b>(417,199)</b>	<b>2,043</b>	<b>(419,242)</b>	<b>10,272</b>	<b>(115,606)</b>
Balance, End of Year (Dec 31, 2015)	<b>9,534,768</b>	<b>615,066</b>	<b>8,919,702</b>	<b>28,131</b>	<b>1,002,305</b>

## Note 6

### Other Post-Employment Benefits

To comply with accrual accounting standards, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be recognized during the period in which the cost occurs rather than in the future year when the benefit will be paid. In adopting the requirements of GASB Statement 45 during the year ended December 31, 2007, the City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability.

#### Plan Description

The Firefighters' and Police Pension Systems are single-employer defined benefit funds established and administered by the City in accordance with the requirements of the Revised Code of Washington. The other post-employment benefit (OPEB) plans are accounted for in these funds.

The Police and Fire other post-employment benefit plans provide medical benefits to all firefighters and uniformed police who were hired prior to March 1, 1970. Police and firefighters hired on or after March 1, 1970, but before October 1, 1977, receive their pensions from the State of Washington and medical coverage from the City of Spokane. Police and firefighters hired after October 1, 1977, are not covered by these plans.

Both plans provide death, disability and medical benefits. As of the most recent actuarial valuation date, December 31, 2016, there are 1 active police officer and 1 active firefighter covered under these plans. In addition, there are 167 police and 218 firefighter retirees receiving other post-employment benefits from the two plans.

The City is responsible for the medical expenses for active and retired employees covered under these plans. For the Police OPEB Plan, all benefits are funded on a pay-as-you-go basis. The Firefighters' OPEB Plan is funded in part with \$14.0 million of net assets.

#### Funding Policy

The City is obligated by ordinance and the Revised Code of Washington to make all required contributions to the plans. The major sources of funding for these plans are property taxes, investment earnings, the State fire insurance premium tax, and local retail sales and use taxes. There are no required employee contributions made to these plans.

The Schedule of Funding Progress, which follows the notes to the financial statements, in the Required Supplemental Information shows historical information on the funded ratio and other actuarial funding data for these plans.



<b>Funded Status (in thousands)</b>	<b>Firefighters' OPEB</b>	<b>Police OPEB</b>
Actuarial valuation date	12/31/2016	12/31/2016
Actuarial value of plan assets	\$ 13,966	\$ -
Actuarial accrued liability (AAL)	50,537	55,943
Unfunded actuarial accrued liability (UAAL)	36,571	55,943
Funded ratio	27.60%	0.00%
Covered payroll	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A

### Annual Required Contribution

	<b>Firefighters' Pension System</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
1	Annual normal cost, beginning of year	\$ 3,023	\$ 3,023	\$ 80,932
2	Amortization of UAAL, beginning of year	2,667,814	2,667,814	3,166,015
3	Interest through end of year $=((1+2)*i)$	106,833	106,833	129,878
4	Annual required contribution $=(1+2+3)$	2,777,670	2,777,670	3,376,825
5	Interest on net OPEB obligation	-	-	-
6	Adjustment to annual required contribution	-	-	-
7	Annual OPEB cost $=(4+5-6)$	2,777,670	2,777,670	3,376,825
8	Employer contributions	(2,777,670)	(2,777,670)	(3,376,825)
9	Change in net OPEB obligation $=(7+8)$	-	-	-
10	Net OPEB obligation at beginning of year	-	-	-
11	Net OPEB obligation at end of year $=(9+10)$	-	-	-
12	Percentage funded $=(8/7)$	100%	100%	100%

	<b>Police Pension System</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
1	Annual normal cost, beginning of year	\$ 6,845	\$ 6,845	\$ 56,649
2	Amortization of UAAL, beginning of year	3,822,413	3,822,413	4,196,207
3	Interest through end of year $=((1+2)*i)$	114,878	114,878	127,586
4	Annual required contribution $=(1+2+3)$	3,944,136	3,944,136	4,380,442
5	Interest on net OPEB obligation	417,516	393,330	363,708
6	Adjustment to annual required contribution	(902,835)	(798,719)	(715,809)
7	Annual OPEB cost $=(4+5-6)$	3,458,817	3,538,747	4,028,341
8	Employer contributions	(2,703,355)	(2,732,536)	(3,040,948)
9	Change in net OPEB obligation $=(7+8)$	755,462	806,211	987,393
10	Net OPEB obligation at beginning of year	13,917,200	13,110,989	12,123,596
11	Net OPEB obligation at end of year $=(9+10)$	14,672,662	13,917,200	13,110,989
12	Percentage funded $=(8/7)$	78%	77%	75%

### Actuarial Information and Significant Actuarial Assumptions

The actuarial assumptions are intended to estimate the future experience of the members of the above mentioned plans.

	<b>Firefighters' OPEB</b>	<b>Police OPEB</b>
Valuation date	12/31/16	12/31/16
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	30 year, closed as January 1, 2007	30 year, closed as January 1, 2007
Funding	30 years	30 years
Remaining amortization years (closed)	21	21
Asset valuation method	Fair market value	Fair market value
Investment rate of return	4.0%	3.0%

## Note 7

### Risk Management

The City is self-insured for Unemployment Insurance, Workers' Compensation, General Liability, and Medical/Dental benefits. Unrestricted net position (assets less liabilities) in the self-insurance funds as of December 31, 2016 and 2015 are as follows:

Fund	2016	2015
Risk Management	\$ 5,025,270	\$ 2,762,372
Workers' Compensation	(94,834)	2,078,734
Unemployment Insurance	1,180,186	963,104
Employee Benefits	17,946,531	16,438,815
	<b>\$ 24,057,153</b>	<b>\$ 22,243,025</b>

Under the city's self-insurance program, the following commercial insurance policies are purchased to protect the city from claims which exceed anticipated funding levels. In 2013, one workers' compensation and one general liability claim exceeded the SIR, and in 2015 two general liability claims exceeded the SIR.

Policy Type	Deductible	Coverage Limits	Description
Excess Workers' Compensation & Employer's Liability - All Employees	\$ 1,000,000	Statutory Limit	Protects the city from unanticipated levels of workers' compensation
Boiler & Machinery	25,000	100,000,000	Protects the city from loss due to damage to buildings and contents from boilers and machinery
Property (Wastewater Treatment Facility)	1,000,000	279,800,000	Protects the city from loss by fire and other extended coverages
Property (Upriver Dam)	1,000,000	100,000,000	Protects the city from loss by fire and other extended coverages
Property (Waste to Energy)	1,000,000	100,000,000	Protects the city from loss by fire and other extended coverages
Property (Other than WWTP, Dam & WTE)	1,000,000	100,000,000	Protects the city from loss by fire and other extended coverages
Medical Stop Loss	450,000	Unlimited	Stop-loss coverage protects the city from excessive individual claims
Excess Liability Coverage	1,250,000	10,000,000	Protects the city from excessive individual losses
Excess Auto, Employment Practices, and Law Enforcement Liability Coverage	1,500,000	10,000,000	Protects the city from excessive individual losses
Inland Marine - Fire Truck Physical Damage	5% Value 10,000 min 50,000 max	20,848,272	Protects the City from loss due to damaged fire trucks
Crime & Fidelity, Employee Theft, Forgery or Alteration, Funds Transfer Fraud	50,000	5,000,000	Protect the city from loss due to employee dishonesty and other extended coverages

#### Claims Liability Valuation

In 2016, the City conducted an actuarial review to determine the estimated claims liability for the Risk Management and Workers' Compensation funds. The estimated loss reserves for the Risk Management

fund totaled \$7.4 million and the Workers' Compensation fund totaled \$9.1 million. The Employee Benefits fund reported IBNR (incurred but not reported) claims of \$2.1 million for 2016. Starting in 2014, the City became self-insured for all medical plans. Claims expenses are recognized in the Employee Benefits and the Unemployment Insurance funds for claims processed through the fiscal year end. No IBNR claims are reported in the Unemployment Insurance Fund. All self-insured funds are responsible for collecting interfund premiums and for paying claims settlements. Interfund premiums are assessed on the basis of exposure and claims experience and are reported as revenues and expenses.

Changes in the claims liability from fiscal year ended December 31, 2015 to December 31, 2016 are shown in the following table:

	General Liability	Workers' Compensation	Health Benefits
December 31, 2015:			
Unpaid Claims, Beginning of Fiscal Year	\$ 6,762	\$ 7,863	\$ 2,795
Incurred Claims	2,590	2,165	24,402
Adjustments for prior claims	1,132	1,711	1,173
Claim Payments	(2,916)	(3,488)	(26,288)
Unpaid Claims, December 31, 2015	<u>\$ 7,568</u>	<u>\$ 8,251</u>	<u>\$ 2,082</u>
December 31, 2016:			
Unpaid Claims, Beginning of Fiscal Year	\$ 7,568	\$ 8,251	\$ 2,082
Incurred Claims	1,558	5,081	24,432
Adjustments for prior claims	277	(666)	(30)
Claim Payments	(1,920)	(3,552)	(24,395)
Unpaid Claims, December 31, 2016	<u>\$ 7,483</u>	<u>\$ 9,114</u>	<u>\$ 2,089</u>

## Note 8

### Short-Term Debt

As construction is done on LID (local improvement district) projects, progress warrants are issued to contractors. The city treasurer disburses funds to the contractors and carries the progress warrants as treasurer's cash investments. When special assessment bonds are sold, the progress warrants are redeemed.

At December 31, 2016, the City had no LID progress warrants outstanding.

Progress Warrants	2016
Balance January 1	\$ -
Progress warrants issued	-
Progress warrants redeemed	-
Balance December 31	<u>\$ -</u>

## Note 9

### Long-Term Liabilities

#### A. Long Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds).

General obligation bonds currently outstanding at December 31, 2016 are as follows:

Name of Issuance	Purpose	Interest Rate	Authorized Amount	Original Issue Amount	Debt Outstanding
UTGO 2008 <sup>1</sup>	Finance the development, construction, or improvement of city park and recreational facilities at the Joe Albi Stadium site, and to fund one or more capital reserves to finance future capital improvements to facilities	3.50% - 5.00%	42,900,000	42,900,000	29,260,000
UTGO 2010A/B	Acquisition, construction, and installation of repairs and improvements to certain streets, including major arterials, public safety corridors, and residential streets; and helping pave unpaved city streets	2.00% - 5.713%	45,430,000	45,070,000	31,840,000
UTGO 2015	Finance improvements to Riverfront Park and the Parks system	1.65% - 2.97%	64,300,000	60,070,000	60,070,000
LTGO 2015 Refunding	Refund UTGO 2004 and UTGO 2007 Refunding bonds	2.45%-3.20%	52,000,000	48,305,000	48,305,000
LTGO 2016 Refunding	Refund LTGO 2005B related to the Parking Facility	3.24%	16,340,000	16,167,449	15,058,902
<b>Total general obligation bonds</b>				<b>\$ 212,512,449</b>	<b>\$ 184,533,902</b>

<sup>1</sup>In January 2017, the City issued \$25.0 million in UTGO (unlimited tax general obligation) Refunding Bonds 2017, which are being used to refund UTGO 2008 bonds.

At December 31, 2016, the City has \$4.5 million available in debt service funds to service the general bonded debt. The annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities			
Year	Principal	Interest	Total
2017	5,766,210	7,475,617	13,241,827
2018	5,959,931	7,259,537	13,219,468
2019	6,166,888	7,023,744	13,190,632
2020	6,382,027	6,777,241	13,159,268
2021	6,815,191	6,493,031	13,308,222
2022-2026	33,978,655	28,552,238	62,530,893
2027-2031	70,270,000	17,653,952	87,923,952
2032-2036	49,195,000	3,535,755	52,730,755
<b>Total</b>	<b>\$ 184,533,902</b>	<b>\$ 84,771,115</b>	<b>\$ 269,305,017</b>

## Debt Refundings

When advantageous and permitted by statute and bond covenants, the city authorizes the refunding of outstanding bonds. When the city refunds outstanding bonds in advance of a call date, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net position.

On January 20, 2016 the city issued \$16,167,449 in limited tax general obligation (LTGO) refunding bonds with an average interest rate of 3.24 percent to refund \$16,065,000 of outstanding LTGO 2005B bonds with an average interest rate of 5.31 percent. The bonds were issued to refund all of the City's outstanding LTGO 2005B bonds and to pay the costs of issuance of the bonds. A portion of the net proceeds from the sale of the bonds and other available funds were deposited in an irrevocable trust with an escrow agent to redeem the 2005B bonds, which were callable after December 1, 2015. As a result, the 2005B bonds were redeemed and the liability for those bonds has been removed from the city's financial statements for 2016. The city refunded the 2005B LTGO bonds to reduce its total combined debt service payments over the next 12 years by \$2,396,158 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,872,801.

On September 30, 2016 the city issued \$5,728,272 in limited tax general obligation (LTGO) refunding bonds with an average interest rate of 2.32 percent to refund \$5,720,000 of outstanding LTGO 2005A bonds with an average interest rate of 5.00 percent. The bonds were issued to refund all of the City's outstanding LTGO 2005A bonds and to pay the costs of issuance of the bonds. A portion of the net proceeds from the sale of the bonds and other available funds were deposited in an irrevocable trust with an escrow agent to redeem the 2005B bonds, which were callable after December 1, 2016. As a result, the 2005A bonds were redeemed and the liability for those bonds has been removed from the city's financial statements for 2016. The city refunded the 2005A LTGO bonds to reduce its total combined debt service payments over the next 10 years by \$3,020,242 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,715,121.

## Government Loans

The City of Spokane has also received government and other loans to provide for the acquisition and construction of capital projects and other purposes. Government and other loans outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Public Works Trust Fund Loans	Various street improvements	.50% - 3.00%	\$ 741,056
State Community Development Loans	Various community development projects	0.00%	325,000
Public Works Trust Fund Loans	Various Water/Wastewater System improvements	.50% - 3.00%	13,023,215
State Revolving Loans	Various Water/Wastewater System improvements	1.50% - 2.90%	39,504,448
<b>Total government and other loans</b>			<b>\$ 53,593,719</b>

The annual debt service requirements to maturity for government and other loans outstanding are as follows:

Governmental Activities			
Year	Principal	Interest	Total
2017	112,917	3,705	116,622
2018	112,917	3,141	116,058
2019	112,917	2,576	115,493
2020	112,917		112,917
2021-2025	289,388	5,223	294,610
2026-2030	-	-	-
2031-2035	-	-	-
2036-2040	-	-	-
2041-2043	325,000	-	325,000
<b>Total</b>	<b>\$ 1,066,056</b>	<b>\$ 14,644</b>	<b>\$ 1,080,700</b>

Business-Type Activities			
Year	Principal	Interest	Total
2017	2,402,614	667,673	3,070,287
2018	2,993,283	1,106,319	4,099,602
2019	2,678,814	1,069,503	3,748,317
2020	2,723,924	1,017,905	3,741,829
2021	2,770,269	967,057	3,737,326
2022-2026	13,580,509	3,995,583	17,576,092
2027-2031	13,116,277	2,546,914	15,663,191
2032-2036	10,988,203	1,009,474	11,997,677
2037-2043	1,273,772	18,767	1,292,539
<b>Total</b>	<b>\$ 52,527,663</b>	<b>\$ 12,399,195</b>	<b>\$ 64,926,860</b>

### Special Assessment Bonds

The City has issued special assessment bonds for various capital construction purposes. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other foreclosure proceeds are received. As of December 31, 2016, the amount of CLID Special Assessment delinquency equals \$350,897.

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
CLID 213	Street/alley improvements	5.00%	40,000
CLID 215	Street/alley improvements	4.50%	25,000
CLID 216	Street/alley improvements	4.60%	115,000
<b>Total special assessment bonds</b>			<b>180,000</b>

### Revenue Bonds

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

The money raised through the bond sale, in large part, will help the City implement its Integrated Clean Water Plan. The plan includes work to manage overflows from combined sanitary and stormwater sewers, address untreated stormwater going to the river, and to add an additional level of wastewater treatment at the City's Riverside Park Water Reclamation Facility.



In November 2014, the City of Spokane sold \$181,225,000 in Water Wastewater Utility revenue bonds to pay for a series of projects that are designed to improve the health of the Spokane River and to protect the aquifer that provides Spokane residents with their drinking water.

The bonds were designated as "green" bonds because they will be used to pay for "green" projects that provide environmental benefits. The work will improve water quality, protect water resources, and save energy, among other things.

The money raised through the bond sale, in large part, will help the City implement its Integrated Clean Water Plan. The plan includes work to manage overflows from combined sanitary and stormwater sewers, address untreated stormwater going to the river, and to add an additional level of wastewater treatment at the City's Riverside Park Water Reclamation Facility.

Revenue bonds outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Water and Wastewater System Revenue Bonds 2014	Finance capital improvements that will improve the health of the Spokane River, protect the region's sole-source drinking water aquifer, and make other necessary improvements to the Water and Wastewater System	3.00% - 5.00%	\$ 169,680,000
<b>Total revenue bonds</b>			<b>\$ 169,680,000</b>

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

Business-Type Activities			
Year	Principal	Interest	Total
2017	6,215,000	7,332,528	13,547,528
2018	6,530,000	7,021,778	13,551,778
2019	6,855,000	6,695,278	13,550,278
2020	7,200,000	6,352,528	13,552,528
2021	7,555,000	5,992,528	13,547,528
2022-2026	43,845,000	23,903,135	67,748,135
2027-2031	53,725,000	10,727,603	64,452,603
2032-2034	37,755,000	2,897,700	40,652,700
<b>Total</b>	<b>\$ 169,680,000</b>	<b>\$ 70,923,078</b>	<b>\$ 240,603,078</b>

## B. Changes in Long-Term Liabilities

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

Long-Term Liabilities	Outstanding 12/31/15	Additions	Reductions	Outstanding 12/31/16	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
General obligation bonds <sup>1</sup>	195,226,287	16,167,449	(26,859,834)	<b>184,533,902</b>	5,766,210
Deferred amounts:					
Bond premiums at issuance	6,531,634	-	(632,342)	<b>5,899,292</b>	45,198
Bond premiums on refunding	2,056,006	-	-	<b>2,056,006</b>	-
Special assessment debt with governmental commitment	250,000	-	(70,000)	<b>180,000</b>	86,944
Government loans	1,178,973	-	(112,917)	<b>1,066,056</b>	112,917
Revitalization Areas <sup>2</sup>	3,570,731	-	(141,981)	<b>3,428,750</b>	95,000
Claims and judgements	17,900,788	785,650	-	<b>18,686,438</b>	18,686,438
Pollution Remediation Liability <sup>3</sup>	-	1,620,000		<b>1,620,000</b>	
OPEB (other postemployment benefit) liability	13,917,200	755,462	-	<b>14,672,662</b>	-
Net pension liability	139,313,768	18,204,381	(2,018,762)	<b>155,499,387</b>	-
Compensated absences	17,792,545	-	(846,507)	<b>16,946,038</b>	1,465,444
<b>Total long term liabilities - governmental activities</b>	<b>397,737,932</b>	<b>37,532,942</b>	<b>(30,682,342)</b>	<b>404,588,532</b>	<b>26,258,152</b>
	-				
<sup>1</sup> In January 2017, the City issued \$25.0 million in LTGO (limited tax general obligation) Refunding Bonds 2016, which are being used to refund LTGO 2005B bonds.					
<sup>2</sup> See Note 12 for more information on the purchase and sale agreements related to the revitalization areas.					
<sup>3</sup> See Note 12 for more information related to the Pollution Liability					

Long-Term Liabilities	Outstanding 12/31/15	Additions	Reductions	Outstanding 12/31/16	Due Within One Year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds:					
General obligation bonds	453,713	-	(453,713)	-	-
Revenue bonds	175,600,000	-	(5,920,000)	<b>169,680,000</b>	6,215,000
Deferred amounts:					
Bond premiums at issuance	19,442,318	-	(534,931)	<b>18,907,387</b>	787,316
Bond premiums on refunding	-	-	-	-	-
Total bonds payable	195,496,031	-	(6,908,644)	<b>188,587,387</b>	7,002,316
Government loans	35,950,172	18,538,425	(1,960,933)	<b>52,527,663</b>	2,403,414
Net pension liability	82,683,766	15,770,895	-	<b>98,454,661</b>	-
Landfill liabilities:					
Landfill closure	1,332,346	-	(69,941)	<b>1,262,405</b>	-
Post closure monitoring	10,214,095	-	(175,870)	<b>10,038,225</b>	-
Capital lease payable	171,992	216,640	(62,423)	<b>326,209</b>	82,942
Compensated absences	4,905,057	230,247	(110,773)	<b>5,024,531</b>	333,601
<b>Total long term liabilities - business-type activities</b>	<b>330,753,458</b>	<b>34,756,207</b>	<b>(9,288,584)</b>	<b>356,221,081</b>	<b>9,822,273</b>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included as part of the governmental activities as follows:

Claims and judgments payable \$18.6 million

Net pension liability	\$28.8 million
Compensated absences	\$1.5 million

### Legal Debt Margin

For purposes of determining the legal debt margin, the assessed valuation of the City for year 2016 is \$15,940 million. Under State of Washington statutes, general obligation indebtedness pursuant to a vote of the electorate is limited to 2.5% of actual value of taxable property located within the City. Indebtedness without a vote of the people is limited to 1.5% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2.5% of total valuation. There is a 2.5% limitation each for utility purposes and open space and park facilities purposes.

Legal Debt Margin	Total
General purpose voted and non-voted debt - 1.5%	\$ 174,682,932
Utility voted debt - 2.5%	212,921,525
Open space and park facilities voted debt - 2.5%	398,521,483
<b>Total remaining debt capacity</b>	<b>\$ 786,125,939</b>

### C. Leases

#### Operating Leases

The City entered into a long-term operating lease agreement with the Spokane Airport Board, an agency of the City and County of Spokane, for the site of the Spokane Regional Waste to Energy Facility. The lease, as amended, provides for the following rental payments:

Effective May 1, 2011 the City pays \$0.085 cents per square foot for 1,608,887 feet.

The City has the option of renewing the lease for four consecutive five-year periods subject to certain conditions. The lease ends April 30, 2018. Lease payments for the year ended December 31, 2016 amounted to \$136,755.

The City entered into long term lease contracts with Xerox Corporation for two printers and Copiers Northwest for copy machines. Lease payments for the year ended December 31, 2016 were approximately \$187,000.

Future Years Operating Lease Payments	Total
2017	324,015
2018	232,845
2019	187,260
<b>Total minimum future rental payments</b>	<b>\$ 744,120</b>

### Capital Lease

The City entered into long term capital lease agreements as follows:

Long term capital lease of \$215,088 with TCF Equipment Finance for the purchase of Kubota Tractor for use at the City's golf courses. The lease provides for semi-annual payments with an interest rate of 3.498%.

Long term capital lease of \$216,640 with VGM Financial Services for the purchase of greens mowers/trucks for use at the City's golf courses. The lease provides for semi-annual payments with an interest rate of 3.50%.

Lease payments for the year ended December 31, 2016 were \$62,423.

The capital lease debt outstanding at December 31, 2016 is \$326,209. The annual debt service requirements are as follows:

Business-Type Activities			
Year	Principal	Interest	Total
2017	82,941	9,989	92,930
2018	85,891	7,031	92,922
2019	88,945	3,968	92,913
2020	45,222	1,206	46,428
2021	23,210	135	23,345
<b>Total</b>	<b>\$ 326,209</b>	<b>\$ 22,329</b>	<b>\$ 348,538</b>
	-		

## Note 10

### Interfund Balance and Transfers

#### A. Interfund Balances

Due to and from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. Interfund balances at December 31, 2016 were as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	5,779,973	1,183,882
Water/Sewer Fund	1,813,890	6,083,753
Solid Waste Fund	1,050,725	2,338,514
Non-major Governmental Funds	2,792,240	2,625,309
Non-major Enterprise Funds	334,277	226,460
Internal Service Funds	4,705,907	4,019,094
<b>Total Government Wide</b>	<b>16,477,012</b>	<b>16,477,012</b>

#### B. Interfund Loans

Interfund loans are loans between funds for capital or cash flow purposes. Interfund loans outstanding at December 31, 2016 are as follows:

Loan To:	Loan From:
<b>Property Acquisition Fund</b>	<b>Spokane Investment Pool<sup>1</sup></b>
Riverfront Conservation Area	1,512,737
Gardner Building	1,341,976
Alki Building	2,073,974
University District Gateway	3,324,958
West Plains Fire Station	717,368
Public Safety Capital	13,951,699
Library RFID	409,553
Division Gateway	203,283
Nelson Service Center	4,555,578
Bond Refunding <sup>2</sup>	5,274,560

<b>Loan To:</b>	<b>Loan From:</b>
<b>Property Acquisition Fund</b>	<b>Spokane Investment Pool<sup>1</sup></b>
CLID 217	100,730
CLID 218	36,790
CLID 219	120,713
CLID 220	23,354
CLID 221	131,546
CLID 222	511,039
CLID 223	514,965
CLID 224A	280,130
<b>Total</b>	<b>35,084,953</b>

<b>Loan To:</b>	<b>Loan From:</b>
<b>Golf Fund</b>	<b>Spokane Investment Pool<sup>1</sup></b>
Bond Refunding <sup>2</sup>	453,712

<sup>1</sup>The Spokane Investment Pool is allowed to invest up to 15% of its balance in City of Spokane bonds. Loans from this pool provide funds with which to pay the cost of acquiring property for public purposes.

<sup>2</sup>LTGO 2005A refunded via Ordinance C35430 approved by City Council on 08/29/16

<b>Loan To (Various):</b>	<b>Loan From (General Fund)<sup>1</sup>:</b>
Human Services Grant Fund	875,747
Public Safety & Judicial Grant Fund	49,844
Community Development/Human Services Operations Fund <sup>2</sup>	600,000
Community Development Block Grant Fund	273,466
HOME Program Fund	89,387
<b>Total</b>	<b>1,888,444</b>

<sup>1</sup>Resolution 2014-0080 authorizes grant invoices to be paid out of the General Fund before requesting the grant funding from the grantor, and replenishing the General

<sup>2</sup> Resolution 2014-0120 authorizes the establishment of a working cash balance that is necessary to facilitate compliance with the federal grant requirements related to cash management.

### C. Interfund Transfers

Interfund transfers represents a sharing of resources between funds. At the fund level, these transfers increase or decrease individual fund resources, but they do not affect the City's total resources. Interfund transfers for the year ending December 31, 2016 are as follows:

Transfer From:		Transfer To:				
Fund	General Fund	Non-major Governmental Funds	Solid Waste Fund	Non-major Enterprise Funds	Internal Service Funds	Total
General Fund	-	25,027,107	-	-	3,890,424	<b>28,917,531</b>
Water/Sewer Fund	-	5,063,800	-	-	29,208	<b>5,093,008</b>
Solid Waste Fund	-	-	-	-	4,410	<b>4,410</b>
Non-major Governmental Funds	137,522	5,820,554	-	35,000	1,439,769	<b>7,432,845</b>
Non-major Enterprise Funds	-	-	-	-	2,284	<b>2,284</b>
Internal Service Funds	36,604	99,623	5,003,114	-	652,204	<b>5,791,545</b>
<b>Total</b>	<b>174,126</b>	<b>36,011,084</b>	<b>5,003,114</b>	<b>35,000</b>	<b>6,018,299</b>	<b>47,241,623</b>

The General Fund transfers were provided to various governmental funds to support day-to-day operations. The water/sewer funds were transferred mainly to reimburse the arterial street fund for services it provided on construction projects. Other funds made debt service transfers to pay for the benefits they received in the financing of projects and equipment done on their behalf. Transfers to the information technology fund are the result of transferring custody of computers and other peripheral equipment purchased by other city departments.

## Note 11

### Joint Ventures

The City participates in two joint ventures. These are the Spokane International Airport (SIA) and the Spokane Regional Transportation Council (SRTC). The City does not contribute any monies toward the operation of the Spokane International Airport. General fund monies are contributed to support the Spokane Regional Transportation Council. In 2016, \$42,620 was paid to the Spokane Regional Transportation Council.

#### Spokane International Airport

SIA is jointly operated by the City and County of Spokane through a joint operating agreement in accordance with the "Airport Joint Operating Agreement"; which was last amended February 2, 2010. This agreement is pursuant to RCW 14.08.200. The unaudited summary below is for the fiscal year ended December 31, 2016 for the Spokane International Airport.

<b>Spokane International Airport</b>	<b>2016</b>
Total Assets	\$ 318,972,287
Total Deferred Outflow of Resources	\$ 1,231,285
Total Liabilities	(28,084,992)
Total Deferred Inflow of Resources	(195,476)
Total Net Position	<b>\$ 291,923,104</b>
Total Revenues	\$ 42,740,967
Total Capital Contributions	5,658,429
Total Expenses	(46,735,417)
Net Increase in Net Position	<b>\$ 1,663,979</b>
Net Position, Beginning of Year	\$ 290,259,125
Net Increase in Net Position	1,663,979
Net Position, End of Year	<b>\$ 291,923,104</b>

At December 31, 2016, the airport had \$5,540,000 in long-term revenue bonds outstanding with \$2,180,000 due on the current portion in 2017. The bonds are secured by airport revenues. Airport revenues are derived through user fees, parking fees, leased areas and buildings, federal and state grants, and interest from investments. Other long-term debt payable at year-end totaled \$5,952,622.

The Spokane Airport Board administers the operations of the airport. It is composed of seven members, three of which are appointed by the County, three by the City, and one non-specific appointee. The City does not exercise any specific control over the budgeting and financing of the airport's activities. The complete financial report may be obtained by contacting the Spokane International Airport, 9000 W. Airport Drive, Suite 207, Spokane, WA, 99224.

#### Spokane Regional Transportation Council

SRTC operates under an Interlocal Agreement adopted by participating entities that include the City of Spokane, Spokane County, Spokane Transit Authority (STA), the City of Spokane Valley, Washington State Department of Transportation (WSDOT), Washington State Transportation Commission, the Spokane Airport Board (SAB), and the incorporated towns within the County. In 1965 the Washington State Legislature created the current statutory authority that provided for coordinated regional planning within the State.



The Council operates under a Board consisting of fourteen voting members and three ex-officio non-voting members. Voting members consist of two County Commissioners, two City Council members, three elected officials representing the small cities, one elected official representing small towns, one representative from the City of Spokane Valley, one person representing STA, (the STA Chief Executive Officer), one representative from WSDOT, one member from the Washington State Transportation Commission, one member from a major employer, and one member representing the SAB (the SAB Chief Executive Officer). Ex-officio members consist of one member representing rail, the Chair of the Transportation Advisory Committee, and the Chair of the SRTC Transportation Technical Committee. The Board selects management of the Council. Control over collection and disbursement of funds resides with the Council.

The Spokane Regional Transportation Council is audited by the Office of State Auditor. At December 31, 2016 the Spokane Regional Transportation Council had no long-term debt outstanding

The unaudited summary for the fiscal year ended December 31, 2016 is presented below.

<b>Spokane Regional Transportation Council</b>	<b>2016</b>
Total Assets	\$ 444,185
Total Liabilities	(444,185)
Total Net Position	<u>\$ -</u>
Total Revenues	\$ 1,364,643
Total Expenses	(1,368,785)
Net Increase in Net Position	<u>\$ (4,143)</u>

The complete financial report may be obtained by contacting the Spokane Regional Transportation Council, 421 West Riverside Avenue, Suite 500, Spokane, WA, 99201.

## **Water/Sewer Fund – Interlocal Agreements**

### **Contracts Receivable and Due From Other Governmental Units**

During 1982, the City of Spokane and Spokane County entered into an Interlocal Agreement whereby the County agreed to pay \$5,779,709 for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to ten million gallons per day for the County. Payments were adjusted annually using an implicit price deflator with January 1985 as the base period. The final capacity payment was received in 1999. Currently only annually adjusted operations and maintenance treatment charges, pretreatment charges, and 10/44ths of water quality capital improvements at the Riverside Park Water Reclamation Facility are billed to Spokane County under the 1982 Interlocal Agreement.

The City of Spokane and the City of Airway Heights entered into an agreement under which Airway Heights agreed to pay \$2,040,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 680,000 gallons per day for Airway Heights. The final capacity payment was received in 2006. Airway Heights no longer sends flows for treatment to the Riverside Park Water Reclamation Facility.

The City of Spokane and Fairchild Air Force Base entered into an agreement under which Fairchild Air Force Base agreed to pay \$3,000,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 1,000,000 gallons per day for Fairchild. Payments are revised annually and are anticipated to be collected in full by the end of the year 2015.

### **Spokane County Utility Tax Payments**

In October 2003, Spokane County began withholding the portion of its wastewater bill it computed as representing municipal taxes. In November 2003, Spokane County commenced a lawsuit to determine if the municipal taxes should be included as an expense in the calculation of the wastewater treatment rate for Spokane County. In January 2007, an agreement was reached in mediation between the City and Spokane County, which was approved by the Spokane City Council on April 30, 2007.

The agreement resulted in Spokane County paying \$1,500,000 to the City on the outstanding balance of their utility bill and the City removing the tax component from its billings to Spokane County. The County will continue to make payments to the City, on a sliding percentage rate of their charges for wastewater utility services, in lieu of taxes, until the year 2021. Beginning in the year 2022, there will be no further payments in lieu of taxes.

### **Dissolved Interlocal Agreement**

On November 17, 2014 the Interlocal Agreement between Spokane County and the City of Spokane that formed the Spokane Regional Solid Waste System (a department within the City of Spokane) terminated. The Spokane Valley and North County Transfer Stations were sold to Spokane County and a new Interlocal Agreement between Spokane County and the City of Spokane was executed whereby Spokane County would deliver all solid waste received at their newly acquired Spokane Valley and North County Transfer Stations to the City of Spokane's Waste to Energy Facility for final disposal.

With the City of Spokane no longer responsible for regional solid waste management, the Spokane Regional Solid Waste System Department within the City of Spokane was eliminated.

In late November 2014, Spokane Municipal Code was amended to rename the two City of Spokane Solid Waste Departments; 1) Solid Waste Collection Department and 2) Solid Waste Disposal Department.

In addition, the Spokane Municipal Code was also amended to clarify the Solid Waste Management Fund, which now reads;

There is established the "Solid Waste Fund of the City".

All receipts for the collection and disposal of garbage and refuse received by the solid waste collection and disposal departments shall be deposited with the city treasurer and become a part of the solid waste fund.

All the expenses and expenditures relating to solid waste collection department and solid waste disposal department shall be paid from the solid waste fund.

## Note 12

### Commitments & Contingencies

#### A. Disability Supplemental Pensions

The Department of Labor and Industries made a determination that six employees of the City were totally disabled as the result of industrial injuries. This determination required the employees to be placed on the pension rolls of the Department of Labor and Industries supplemental pension fund, which provides monthly pension benefits. Since the City is self-insured, the City is responsible for funding these pension benefits. The City has deposited \$658,418 with the State of Washington which represents the full present value of the pensions as of June 30, 2016. The State will invest this amount on the City's behalf, and pay pensions each month from that deposit. Interest earnings will accrue to the deposit. Each year, in June, the pensions are actuarially re-evaluated and excess monies are returned to the City, or deficit monies are remitted to the State. In 2016, the City paid an additional amount of \$30,430 as part of the current year re-evaluation.

#### B. Downtown Housing Stabilization

The Downtown Housing Stabilization Program is a program developed by the Financial Issues Task Force of the Downtown Capital Needs Committee in the early 1990s. The Stabilization Program was designed to maximize opportunities for private investment to respond to the critical need for affordable housing units for low-income residents of the Downtown Community. The City has assumed the role of Loan Loss Guarantor for loans made by private investors on properties purchased as part of the program. No new loans have been made under this program since 1994.

#### C. Spokane Public Facilities District

In August 2003 the City executed an interlocal agreement with the Spokane Public Facilities District (PFD) related to the Spokane Convention Center, the Spokane Opera House, and the Washington State International Agricultural Trade Center (collectively known as the Spokane Center) and the Spokane Veterans Memorial Arena. The purpose of the agreement was to set forth agreements relating to PFD's acquisition of the existing facilities, the expansion of the Spokane Convention Center, and the operation and maintenance of the Spokane Center facilities and the Arena. The agreement terminated the City's operation agreement for the Arena, and transferred 2/3 ownership of the Spokane Center assets to the PFD. The interlocal agreement also laid out certain annual obligations of the City to the PFD related to the Spokane Center. This agreement was modified in May 2009 and contains the following stipulations:

1. The City will transfer to the PFD all admission taxes collected at Spokane Center and Arena events.
2. The City will transfer to the PFD all lodging tax revenues collected, after deducting amounts sufficient to service the City's outstanding debt payments related to Spokane Center assets and \$100,000 annually to be allocated by the City's Lodging Tax Advisory Committee. The \$100,000 allocation shall be adjusted annually by using the Consumer Price Index (CPI) or other closely related index if that index is discontinued. If the CPI is greater than 2%, the City can consider negotiation of transferring the incremental increase to the District, but is not required to do so.
3. The City will transfer to the PFD all stadium tax revenues collected.

This agreement is valid through December 31, 2038.

#### D. Construction Commitments

The City has active construction projects as of December 31, 2016. The projects include street construction, parks, water/sewer infrastructure and transfer station upgrades, and technology upgrades. At year end, outstanding construction commitments are as follows:

Construction Commitments	Original Commitment	Spent to Date	Remaining Commitment at 12/31/16
1st Avenue, Erie Street to Helena Street and Perry Street, 2nd Avenue to 1st Avenue	915,994	775,968	140,025
2013 Downtown Pedestrian Improvements	56,800	20,588	36,213
2014 Neighborhood Traffic Calming, District #2	476,293	454,556	21,737
2015 Neighborhood Traffic Calming - Phase I	560,796	821	559,974
2016 Residential Grind & Overlay Projects	61,919	53,225	8,693
25th Avenue, Southeast Boulevard to 230 feet east of Lacey	384,049	345,964	38,084
37th from Regal Street to Custer Street	5,754,184	3,340,821	2,413,363
Academy Range Eyebrow Project	115,000	-	115,000
Addison Street/Standard Street Bicycle & Pedestrian	680,158	608,610	71,548
Barnes Road from Phoebe Street to Strong Road	29,000	15,881	13,119
Browne Street/Division Street Couplet from 3rd Avenue to	537,782	438,417	99,365
Central Avenue Wells 1 & 2 Rehabilitation	1,193,049	768,424	424,625
Central Parking Facility Renovation	488,479	466,010	22,469
Council Chambers Remodel Ph I	18,930	-	18,930
CSO 14 & 15	40,700	10,448	30,253
CSO 33-1 Control Facility	11,502,539	18,808	11,483,730
CSO Basin 06 Control Facility Phase II	10,870	-	10,870
CSO Basin 12 Control Facility	7,812,344	6,618,373	1,193,971
CSO Basin 20 Control Facility	76,000	42,174	33,826
CSO Basin 23 Control Facility	9,750	9,060	690
CSO Basin 24-25 Preliminary Design	250,538	42,615	207,923
CSO Basin 25 Improvement	23,800	15,468	8,332
CSO Basin 26 Control Facility	6,049,737	5,485,170	564,567
CSO Basin 34-1 Control Facility	95,000	14,891	80,109
CSO Basin 41 Control Facility	2,123,582	4,340	2,119,242
CSO Basin 6 Control Facility (Part of CSO Abatement Phase I)	5,341,182	5,072,166	269,015
Downtown Bicycle Network Completion Phase III	110,607	-	110,607
Dwight Merkel Lighting Installation	31,000	-	31,000
EDU Range Renovations Project	77,155	-	77,155
Ferrall Street & Broad Avenue Sewer Rehabilitation	157,489	142,892	14,597
Filtration Pilot Study	4,060,700	3,668,604	392,096
Finch Arboretum Streambank Restoration	119,813	116,474	3,340
Finch Arboretum's Woodland Center Railing	6,522	-	6,522
Finch Arboretum's Woodland Center Restroom Remodel	55,000	-	55,000
Five Mile Road from Lincoln Road to Strong Road	10,000	3,250	6,750
Franklin Park Field Lights	297,566	214,484	83,082
Hartson Avenue from Altamont Street to Fiske Street	584,329	535,290	49,039
Havana Wellsite	39,350	-	39,350
Hazel's Creek Downstream Conveyance	1,506,857	1,312,139	194,718
High Drive from Bernard Street to Grand Boulevard	1,117,553	1,014,696	102,857
Howard Street Channel Bridge	4,737,102	1,759,359	2,977,742
I03 Control Facility (TJ Meenach CSO)	18,000	-	18,000
I04 Control Facility (Bridge CSO)	6,557,477	3,594,170	2,963,307
Indiana Avenue from Division Street to Perry Street Phase II	2,382,975	2,168,558	214,417
Interceptor I-07 (Near Napa Street/Riverside Avenue Intersection)	42,000	-	42,000
Lincoln Street/Monroe Street from Second Avenue to Main	3,466,019	1,881,618	1,584,401
Lower Manito Playground Project	82,124	62,938	19,186
Main Street Restriping & Streetscape Improvements between Pine	122,549	78,522	44,027
Manito Park Equipment Barn Chimney	32,780	-	32,780
Manito Park Mirror Pond Reno Phase II	169,628	-	169,628
Millwood Trail; from Spokane Community College to Felts Field	169,167	13,979	155,188
Mission Park Basketball Lighting	8,420	5,669	2,751
Monroe Street Lane Reduction & Hardscape from Indiana Avenue	8,700	-	8,700
Monroe Street/Lincoln Street Couplet from 4th Avenue to Main	6,202,250	5,481,842	720,408
Next Level of Treatment-RPWRF	65,849,615	18,898,469	46,951,146

Pacific Avenue and Perry Street Infiltration Facility	919,401	-	<b>919,401</b>
Peaceful Valley Futsal Court	74,460	-	<b>74,460</b>
Peaceful Valley Lighting Project	8,428	-	<b>8,428</b>
Ray Street from 29th Avenue to 17th Avenue	1,030,040	927,448	<b>102,592</b>
Riverfront - Basalt Rock Emergency Repair	20,000	-	<b>20,000</b>
Riverside Drive Phase II and III - Sherman St to Perry St	3,674,881	1,757,984	<b>1,916,897</b>
Rochester Heights Lighting Upgrade	18,914	-	<b>18,914</b>
Rowan Avenue from Driscoll Street to Perry Street Phase I	4,612,264	4,483,663	<b>128,601</b>
Rowan Avenue from Driscoll Street to Perry Street Phase II	141,653	10,699	<b>130,954</b>
RPWRF LID Parking, Landscape, & Fire Protection Imps	1,583,107	1,362,121	<b>220,986</b>
RPWRF Phase II Upgrades Project Management Office (PMO II)	2,045,021	1,073,963	<b>971,058</b>
RPWRF Small Projects Package	5,005,200	4,571,923	<b>433,278</b>
Silo Digester No.3 at Riverside Park Water Reclamation Facility	13,531,737	12,295,810	<b>1,235,927</b>
South Hill Library Roof Replacement	93,606	89,300	<b>4,306</b>
Spokane Gorge Restoration Project	9,792	4,332	<b>5,460</b>
Sprague Avenue and Sherman Avenue Pedestrian-Bike Bridge	21,210	8,376	<b>12,834</b>
Underhill CSO 34-2 Storage Facility	9,193,379		<b>9,193,379</b>
Union Basin Stormwater Improvements	1,261,310	1,068,103	<b>193,207</b>
University District Pedestrian/Bicycle Bridge	5,439,767	-	<b>5,439,767</b>
Upriver Dam Spillway Rehab Phase II	1,686,879	1,496,480	<b>190,399</b>
Wall Street CSO-Main Street to Spokane Falls Boulevard	879,345	715,562	<b>163,782</b>
Wall Street Surface Improvements	877,425	592,780	<b>284,645</b>
Wellesley Roundabout - relocation of utilities	622,393	613,817	<b>8,576</b>
West Plains to SIA Connection	817,149	658,827	<b>158,322</b>
Witter Pool Deck Repair	431,926	266,741	<b>165,185</b>
Youth Baseball Fencing/Gate Safety	61,671	-	<b>61,671</b>
<b>Total Construction Commitments</b>	<b>\$ 196,692,176</b>	<b>\$ 97,573,680</b>	<b>\$ 99,118,496</b>

#### D. Developer Improvements

In 2007, the City Council adopted Ordinance C34758 authorizing an “Amended and Restated Reimbursement Agreement”. Under Article V of that agreement, the developer may offer to sell the City certain public improvements according to the terms of a “Form of Purchase and Sale Agreement.” Since 2012 the developer has exercised that right and entered into the following agreements with the City.

Contract	Description	Amount	Interest Rate	Expiration Date
OPR 2012-0484	Kendall Yards Tendered Improvements 2nd Addition	\$ 574,038	0.1443%	12/15/2032
OPR 2013-0651	Kendall Yards Tendered Improvements 4th Addition	808,603	0.1443%	12/15/2032
OPR 2015-0555	Kendall Yards Tendered Improvements 5th Addition	612,033	0.1443%	12/15/2032
OPR 2015-0038	Kendall Yards Tendered Improvements Commercial Addition	1,446,910	0.1443%	12/15/2032
OPR 2014-0543	Burgans' Block	250,000	30 yr Treasury Bond + 2%	12/31/2034
		<b>\$ 3,691,584</b>		

#### E. Landfill Closure

On July 21, 1987, the City ceased disposal operations at its Southside Landfill. During 1988, the Southside landfill closure was completed at a total cost of \$5.4 million. These closure costs were paid using previously reserved cash and the total closure amount was recorded as an expense in 1988.

The City started closing the Northside Landfill in 1991. The closure was completed during 1993 for a total cost of \$19.4 million. These closure costs were paid using approximately \$3.1 million of previously reserved cash and \$16.3 million of the Spokane Regional Solid Waste Management System Revenue Bond proceeds. The

City Council and Spokane County Board of County Commissioners approved an interlocal agreement which required that tipping fees established by the Spokane Regional Solid Waste Management System shall have a landfill closure component which will provide a source of revenue to the City and the County for the payment of pre-existing landfill costs. The City's portion of the closure component covers the debt service requirements on \$16.3 million of revenue bond proceeds. A Northside landfill closure liability was recorded as a deferred cost on January 1, 1988 and was charged to expense over a 20 year period as these amounts were recovered through rates charged to customers. The deferred cost was fully amortized during 2007.

#### **F. Postclosure Landfill Monitoring**

The \$11.3 million reported as landfill postclosure care liability at December 31, 2016 represents the cumulative amount required to monitor and maintain the closed portion of the Northside landfill, the open portion (Phase 1) of the Northside Regional landfill and the closed Southside landfill for the next 20-30 years. All amounts recognized are based on what it would cost to perform all postclosure care in 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has restricted \$4.5 million in assets related to the post-closure monitoring of the closed portion of the Northside landfill, and \$4.0 million for post-closure monitoring of the open portion of the Northside landfill. No assets have been restricted for future costs of \$ 1.0 million for the Southside landfill based on the City's interpretation of the applicability of Washington Administrative Code 173-304-467. This landfill has a remaining useful life of approximately 9 years.

<b>Landfill Monitoring</b>	<b>Northside Landfill</b>	<b>Southside Landfill</b>	<b>Total</b>
Estimated Post closure costs	\$ 4,448,634	\$ 974,629	\$ 5,423,263
Accrued post closure costs		4,074,520	4,074,520
Accrued closure liability	1,802,845		1,802,845
<b>Total</b>	<b>\$ 6,251,479</b>	<b>\$ 5,049,149</b>	<b>\$ 11,300,628</b>

#### **G. Northside Regional Landfill**

Beginning in 1992, the City started using a recently completed Northside Regional Landfill for the disposal of bypass waste and demolition debris. The 16 acre cell has a capacity of approximately 400,000 cubic yards (Phase I) and may be increased an additional 600,000 cubic yards (Phase II). State and federal laws and regulations require the City to place a final cover on the Northside Regional Landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Postclosure care consists of (1) maintaining the integrity and effectiveness of the final cover; (2) maintaining and operating the leachate collection system; (3) maintaining and operating the ground and surface water monitoring systems; and (4) maintaining and operating the gas monitoring systems. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City recognizes a portion of these costs in each operating period based on landfill capacity used as of the balance sheet date.

The \$1.8 million reported as landfill closure liability at December 31, 2016 represents the cumulative amount reported based on the use of 63 percent of the estimated capacity of Phase 1. The City will recognize the remaining estimated cost of closure of \$1.0 million as the remaining estimated capacity (Phase 1) is filled. All amounts recognized are based on what it would cost to perform all closure and postclosure care in 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

As of December 31, 2016, the City held \$1.8 million of restricted cash, which is reserved for the closure of the Northside Regional Landfill (Phase 1).



## **H. Pollution Remediation**

### **Riverfront Park**

The City of Spokane has established a Redevelopment Opportunity Zone (ROZ) to align with the ongoing redevelopment efforts by the City of Spokane and the Spokane Park Board within Riverfront Park. This new policy tool was enacted as part of a reform bill to the Model Toxics Control Act (MTCA) enacted by Senate Bill 5296. The fundamental principle of the brownfield reforms is to support efforts that leverage market redevelopment forces to drive cleanup projects forward. As a complement to the traditional enforcement-based approach to cleanup, the brownfield redevelopment focused approach creates incentives to reduce risk and improve the financial feasibility of adaptive re-use of contaminated properties.

The proposed geographic extent of the RFP ROZ focuses on the City-owned public Riverfront Park. Riverfront Park is Spokane's premier example of the brownfield reuse. Riverfront Park occupies 100 acres of land and water in the center of downtown Spokane. The Spokane Falls and the surrounding land had long been a gathering place for people. Native Americans gathered and fished at the falls.

SB 5296 requires that the following criteria be met in order to establish a ROZ:

- At least fifty percent of the upland properties in the zone are brownfield properties whether or not the properties are contiguous.
- The upland portions of the zone are comprised entirely of parcels of property either owned by the designating agency (port, city or county) or whose owner has provided consent in writing to have their property included within the zone.
- The cleanup of brownfield properties will facilitate the implementation of the voter approved Redevelopment Master Plan for the future uses of the properties and is consistent with the city or county comprehensive land use plan for the zone; and
- The proposed properties lie within the incorporated area of a city or within an urban growth area

A Phase I Environmental Site Assessment of the Riverfront park property has identified a number of recognized environmental conditions, including:

- Mining in the Coeur D'Alene Basin has contaminated stretches of the Spokane River with arsenic, cadmium, lead, and zinc (heavy metals). Portions of the subject property border, or are surrounded by, the Spokane River. Because of likely contamination of sediments in the Spokane River and its proximity to the subject property, the identified Spokane River area-wide metals contamination is considered a REC to the subject property.
- Historical occupants of the subject property are considered RECs. These occupants include:
  - Railroads,
  - Laundries and drycleaners,
  - Various types of mills and factories,
  - An asphalt plant,
  - Lumber yards,
  - Foundries,
  - Iron works,
  - Power companies,
  - Machine shops,
  - Pottery shops,
  - Auto service stations,
  - Seed companies,
  - Coal storage, and
  - Other occupants with chemical storage facilities and/or USTs and AS
- The presence and unknown source of large amounts of fill material located throughout the subject property, as well as the possibility that debris from the fire of 1889 is located throughout fill material on the subject property, represent a REC to the subject property.
- The staining observed near a floor drain inside the containment area located under the large compressor in the ice rink compressor room represent a REC to the subject property.

- The leaking piping or fill port in the ice rink area on the subject property represents a REC to the subject property.
- The lack of documentation regarding the removal of the two, 1,000-gallon and one, 250-gallon underground storage tanks (USTs) located at the Bosch Service site represents a REC to the subject property.
- The historic use of and need for additional assessment at the Spokane City Central Park Maintenance Pro site, as well as the lack of documentation regarding the USTs or ASTs at the site, and the presence of multiple contaminants, some at concentrations greater than cleanup levels, represent a REC to the subject property.
- The presence of soil and groundwater contamination greater than cleanup levels at the Anthony's Restaurant (formerly Salty's on the Falls) property represents a REC to the subject property.
- The presence of groundwater contamination greater than cleanup levels at the Continental Baking Company site represents a REC to the subject property.
- The documentation of many activities which could result in soil and/or groundwater contamination at the Carnation Dairy portion of the Carnation Dairy site represents a REC to the subject property.
- The lack of documentation regarding the removal or fate of the 2,000- and 6,000-gallon USTs on the Dairy Garage portion of the Carnation Dairy site represents a REC to the subject property.
- The presence of floor drains and sumps and sediment/sludge with strong petroleum odor present near and inside these structures on the Dairy Garage portion of the Carnation Dairy site represents a REC to the subject property.
- The presence of soil and groundwater contamination greater than MTCA cleanup levels on the Dairy Garage portion of the Carnation Dairy site represent a REC to the subject property.
- The presence of soil contamination greater than MTCA cleanup levels on the parking area portion of the Carnation Dairy site represents a REC to the subject property.
- The presence of soil and historic groundwater contamination greater than cleanup levels at the Convention Center site represents a REC to the subject property.
- The uncertainty regarding possible groundwater contamination at the Upper Falls East/Old Joe Clark's site represents a REC to the subject property.

The City of Spokane entered into an agreement with Stantec Consulting to evaluate potential cleanup alternatives based on the following criteria: effectiveness, implementation feasibility, remedial costs, and general reasonableness. The evaluation of cleanup resulted in three alternatives. These alternatives were used to measure the liability associated with pollution remediation calculated using the probability-weighted amount shown below.

<b>Pollution Remediation Measurement Riverfront Park</b>	<b>Probability of Choice</b>	<b>Estimated Costs</b>	<b>Pollution remediation</b>
Alternative #1 - No Action	0%	\$ -	\$ -
Alternative #2 - Impacted and contaminated soil segregation and stockpiling clean soil for reuse	90%	1,550,000	1,395,000
Alternative #3 - Off-site Disposal of all soil low range	5%	2,000,000	100,000
Alternative #3 - Off-site Disposal of all soil high range	5%	2,500,000	125,000
			<b>\$ 1,620,000</b>

In April 27, 2016, WA State Department of Ecology accepted the Parks and Recreation Division's Voluntary Cleanup Program (VCP) application, following geotech and environmental testing in preparation for the construction of the "Ice Ribbon"



- Environmental testing indicated the presence of PAHs, arsenic, cadmium and lead above MTCA Method A cleanup criteria. Lube oil range hydrocarbons could also be present greater than MTCA Method A Cleanup Criteria. Multiple infrastructure projects are planned for Riverfront Park. Projects will include earthwork (excavation and filling) and modifications to existing stormwater disposal methods within areas identified to have contamination greater than MTCA Method A cleanup criteria.

### **The Yard**

The YARD is located in the Hillyard Area of Northeast Spokane and encompasses approximately 500 acres of Heavy and Light Industrial zoned property. As a key industrial space, the YARD is modernizing to include upgraded transportation options and enterprising redevelopment initiatives.

The City of Spokane has applied for \$600,000 in EPA Brownsfield Assessment and Clean up grant funds to contract for consulting services to evaluate the sites in the Yard, present the cleanup alternatives along with associated costs. There is no reasonable estimate of the pollution remediation liability at this time.

## Note 13

### Prior Period Adjustments

The Statement of Activities reports a change to net position as follows:

Prior Period Adjustment	
Governmental Activities	\$ (10,559,531)
Business-Type Activities	(424,406)
Total	<b>(10,983,937)</b>

Governmental Activities	
General Fund	\$ 1,661,821
Special Revenue Funds	(10,881,349)
Debt Service Funds	9,882
Capital Projects Funds	253,514
Internal Service Funds	57,432
	<b>(8,898,700)</b>

Governmental Activities	
Capital Asset Correction <sup>1</sup>	
Street Fund	(207,438)
Parks Fund	166,607
Total	<b>\$ (40,831)</b>

<sup>1</sup>Because capital assets in the governmental funds are not reflected in the fund financial statements, corrections of prior period balances only affect the government-wide financial statements.

Pollution Remediation	
Parks (Riverfront Park) <sup>1</sup>	(1,620,000)
Total	<b>\$ (1,620,000)</b>

<sup>1</sup>Because a Pollution Remediation liability is recognizable by a government when it has voluntarily assumed responsibility for cleanup of an obligating event and is not recorded at the fund level, the added liability in the

year of recognition is a correction of prior period balances and only affects the government-wide financial statements.

**Governmental Activities**

\$1,559,444 increase is due to the city wide recognition of accrued income on the City's investment portfolio. This change affected all funds with investment balances. In the fund financial statements, this is labeled as Equity in Pooled Investments.

\$489,438 increase is due to the correction of prior year accruals.

\$166,607 increase in capital assets for the Parks Fund is due to the correction of prior year accruals.

\$207,438 reduction of prior year construction in progress balance as the projects are inactive or will otherwise not be completed.

\$2,321,439 increase due to balances of Transportation Benefit District being a component unit not previously blended.

\$13,269,021 is a reduction in order to record allowance for uncollectible accounts in various community housing program related to deferred loans balances.

\$1,620,000 reduction to due to the recognition of a liability related to pollution remediation.

<b>Business-Type Activities</b>	
Water/Sewer Fund	( 460,616 )
Solid Waste Fund	33,485
Other Enterprise Funds	2,725
Total	<b>\$ (424,406)</b>

**Business-Type Activities**

\$590,182 increase is due to the city wide recognition of accrued income on the City's investment portfolio. This change affected all funds with investment balances. In the fund financial statements, this is labeled as Equity in Pooled Investments.

\$1,014,588 decrease was due to a correction of prior year accruals.

## Note 14

### **Legal Matters**

In the normal course of governmental operations the City has claims filed against it for various losses related to tort actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. At any given point in time, there is a recurring volume of tort and other claims for compensation and damages against the City, which could impact expenditures. The City's Risk Management Fund provides for these claims, and insurance is available to pay a portion of damages for certain types of claims. The collective impact of these claims is not likely to have a material impact on the City's financial position. There are no known pending or anticipated legal matters that would materially affect the financial statements of the City for the year ending December 31, 2016.

## Note 15

### Subsequent Events

On January 25, 2017 the city issued \$25,030,000 in unlimited tax general obligation (UTGO) refunding bonds with an average interest rate of 4.80 percent, and a True Interest Cost (TIC) of 2.43% to refund the callable portion of the City's outstanding 2008 UTGO Bonds (Park Bonds) totaling \$27,140,000. As a result of the refinancing, the annual debt service was reduced by an average of approximately \$224,000 annually until the final maturity in 2027. The total savings is \$2,465,264, which has a present value of \$2,145,659. The Bonds were structured with the same final maturity as the 2008 UTGO Bonds.

A portion of the net proceeds from the sale of the bonds and other available funds were deposited in an irrevocable trust with an escrow agent to redeem the callable portion of the 2008 UTGO Bonds, which are callable after December 1, 2018. As a result, the callable portion of the 2008 bonds (\$27,140,000) were redeemed and the liability for those bonds has been removed from the city's financial statements for 2016.

## Note 16

### Tax Abatements

#### A. Multiple-Family Housing Property Tax Exemption Program

Required disclosure by the City of Spokane concerning compliance with GASB Statement 77 which requires governments that enter into tax abatement agreements to disclose the following information about those agreements:

1. Tax being abated: The City of Spokane adopted the 'Multiple Family Housing Property Tax Exemption Program' in March of 2000 in order to accomplish the following goals:
  - a. encourage more multi-family housing opportunities, including affordable housing opportunities, within the City;
  - b. stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multi-family housing;
  - c. increase the supply of mixed-income multifamily housing opportunities within the City;
  - d. accomplish the planning goals required under the Growth Management Act, chapter 36.70A RCW, as implemented from time to time by the City's current and future comprehensive plans;
  - e. promote community development, neighborhood revitalization, and availability of affordable housing;
  - f. preserve and protect buildings, objects, sites and neighborhoods with historic, cultural, architectural, engineering or geographic significance located within the City; and
  - g. encourage additional housing in areas that are consistent with planning for public transit systems.
  - h. Any one or a combination of these purposes may be furthered by the designation of a residential targeted area
  - i. To accomplish these goals, the City of Spokane offers a partial property tax exemption to eligible property owners who construct new multi-family housing or rehabilitate existing vacant and underutilized buildings for multi-family housing in specific targeted urban centers of the City. Under this incentive, the land is fully taxed but the value of new improvements related to housing is exempt from property taxes. The exemption period is 8 years for market rate projects, and 12 years for projects that price at least 20% of the units to be affordable for low to moderate income households.
2. The authority under which tax abatements are provided: The multiple-family housing property tax exemption is authorized by the Spokane Municipal Code section SMC 8.15 and the Revised Code of Washington section RCW 84.14.
3. Eligibility criteria: To be eligible for a partial property tax exemption under this program, the property must satisfy all of the relevant requirements, as follows:
  - a. Located in a residential targeted area in an urban center.
  - b. The multi-family project must consist of at least 4 dwelling units, either within a solely residential structure or as part of a mixed use development in which at least 50% of the space within the development is intended for permanent residential occupancy.
  - c. New construction, or conversion of non-residential space: A minimum of 4 new dwelling units must be created.
  - d. Rehabilitation or demolition in preparation for new construction: The residential portion must fail to comply with one or more standards of the building codes, and the project must achieve substantial compliance with the applicable standards.
  - e. If existing multi-family housing is occupied, the project must add a minimum of 4 dwelling units. Also, the applicant must provide each existing tenant with housing of comparable size, quality and price and a reasonable opportunity to relocate. If the multi-family

property has been vacant for 12 or more months, the project must rehabilitate at least 4 of the existing dwelling units but does not have to provide additional multi-family units.

- f. If the multi-family structure has not been vacant for 12 months, the project must rehabilitate all the existing structures and create 4 additional units. Eligible market rate projects get 8 years of partial tax exemption. In order to qualify for 12 years of partial tax exemption, at least 20% of the units in a project must be rented or sold for a price affordable to low ( $\leq 80\%$  AMI) or moderate (80-115% AMI) income households. Projects intended solely for owner occupancy need only target 20% of the units to moderate-income households. "Affordable" housing means that housing costs (including utilities other than telephone) should not exceed 30% of the occupant's monthly income. The project must comply with all applicable zoning requirements, design review requirements, land use regulations, and building and housing code requirements at the time of new construction, rehabilitation or conversion.
  - g. This program applies to construction or rehabilitation of 4 or more dwelling units in one building on one parcel. The program may also be used for rehabilitation of existing multi-family housing that is in "non-compliance" with one or more standards of the building or housing codes. Work must be completed within 3 years of the date of the Conditional Certificate of Acceptance of Tax Exemption.
4. Mechanism by which taxes are abated: The tax exemption begins January 1 of the year following the calendar year in which the Final Certificate of Tax Exemption is issued, and runs for 8 or 12 years. A property owner within a designated "residential target area" can apply for the property tax exemption. The City Council has designated three residential target areas:
- a) Central Business District
  - b) Browne's Addition/Peaceful Valley
  - c) Centers and Corridors

An application for this tax exemption program must be submitted before an application for building or other construction permits. Once approved, a contract is filed with the County Assessors office and is noted on the individual's property tax filing. This is not a reduction in current property taxes it is an exemption of taxes on the assessed value of the improvements.

For example an individual has a piece of property with the assessed value of \$40,000 they qualify for an exemption and the improved assessed value is \$240,000 the individual will only pay the taxes on the original \$40,000 until the contract expires.

5. Provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients: The city has no provisions to recapture abated taxes. However, the city has requirements that must be met by the applicants including but not limited to the following. Application for the multi-family housing tax exemption is made through the City of Spokane using the application forms available from the Development Incentives Department located on the 3rd floor of City Hall. The application includes:
- a) Application for Tax Exemption, including
    - i. Description of Project
    - ii. Preliminary Site and Floor Plans
    - iii. "Before" photos
    - iv. Statement of Potential Tax Liability
  - b) Verification of Code Noncompliance (if applicable)
  - c) Application fee: \$450 + \$80/dwelling unit up to an additional \$560
  - d) Approval Process
    - i. Code Non-compliance..... Building Official, Fire Marshall, or Code Enforcement
    - ii. Application for Conditional Certificate..... Development Incentives
    - iii. Building Permit..... Building Department
    - iv. Resolution..... City Council
    - v. Agreement [the contract] Mayor's Office
    - vi. Conditional Certificate..... Mayor's Office
    - vii. Certificate of Occupancy... Building Department

- viii. Application for Final Certificate..... Development Incentives
  - ix. Partial Tax Exemption..... Assessor's Office
  - e) Within 30 days of receipt of all materials required for a final certificate, the Director of Development Incentives will determine whether the completed work is consistent with the contract and qualifies for the exemption. If the Director determines the work is consistent with the contract and qualifies for the exemption, within 10 days after making the determination, the City will file a Final Certificate of Tax Exemption with the County Auditor, with a copy to the County Assessor and City Clerk.
  - f) If the Director determines that the work is not consistent with the contract or otherwise does not comply with requirements for the tax exemption, including completion within 3 years and affordable housing requirements, the Director will notify the applicant in writing, stating the reasons why the Final Certificate of Tax Exemption will not be issued. The applicant may appeal this decision following the timeframes outlined under the "appeals" portion of this brochure.
  - g) Within 30 days after the first anniversary of the date when the Final Certificate of Tax Exemption was filed and recorded with the Spokane County Auditor, and each year thereafter for the tax exemption period, each property owner must file an annual report form with the Development Incentives Department regarding the current occupancy, use and affordability of the property and describing any improvements or changes that have since been made to the property. Failure to submit the annual report, or changing the use from residential may result in cancellation of the tax exemption.
6. The gross dollar amount of taxes abated during the period: The gross benefit to all property owners during the 2016 fiscal year was \$2,496,018.02.
7. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.
- a. The program established by this program authorized by the Spokane city council shall expire December 31, 2017, unless extended by the city council by ordinance. Upon expiration, no further applications for a conditional certificate of tax exemption shall be accepted. Incomplete applications shall be returned to the applicant. Pending complete applications for a conditional certificate, extension of conditional certificate and final certificate shall be processed as provided in this city code section.



**City of Spokane, Washington**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund Accounts**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 151,737,000	\$ 151,736,000	\$ 151,201,589	\$ (534,411)
Licenses and permits	6,625,500	6,625,500	6,992,715	367,215
Intergovernmental	7,131,555	7,366,790	4,549,060	(2,817,730)
Charges for services	14,661,905	14,780,635	18,389,565	3,608,930
Fines and forfeitures	3,234,500	3,259,020	3,225,243	(33,777)
Miscellaneous	6,301,765	6,301,765	8,787,853	2,486,088
Net inc(dec) in market value of investments	-	-	(6,220,198)	(6,220,198)
<b>Total revenues</b>	<b>189,692,225</b>	<b>190,069,710</b>	<b>186,925,827</b>	<b>(3,143,883)</b>
<b>EXPENDITURES</b>				
General government	30,430,664	31,654,592	30,150,004	1,504,588
Public safety	106,186,721	106,190,953	107,467,432	(1,276,479)
Transportation	6,042,695	6,094,974	6,057,102	37,872
Economic environment	5,452,444	6,302,089	5,402,059	900,030
Social services	1,586,543	1,820,448	1,712,802	107,646
Culture and recreation	8,767,791	8,508,367	7,785,349	723,018
Capital outlays	1,875,382	2,018,299	1,460,157	558,142
Interest	10,000	10,000	66,518	(56,518)
<b>Total expenditures</b>	<b>160,352,240</b>	<b>162,599,722</b>	<b>160,101,423</b>	<b>2,498,299</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>29,339,985</b>	<b>27,469,988</b>	<b>26,824,404</b>	<b>(645,584)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	130,008	130,008
Transfers in	47,753,747	47,753,747	137,523	(47,616,224)
Transfers out	(77,484,463)	(77,673,713)	(28,917,531)	48,756,182
<b>Total other financing sources (uses)</b>	<b>(29,730,716)</b>	<b>(29,919,966)</b>	<b>(28,650,000)</b>	<b>1,269,966</b>
<b>Net change in fund balance</b>	<b>(390,731)</b>	<b>(2,449,978)</b>	<b>(1,825,596)</b>	<b>624,382</b>
<b>Fund balance - beginning</b>	<b>41,073,772</b>	<b>41,073,772</b>	<b>41,073,772</b>	<b>-</b>
Prior Period Adjustment	-	-	1,661,821	1,661,821
<b>Fund balance - ending</b>	<b>\$ 40,683,041</b>	<b>\$ 38,623,794</b>	<b>\$ 40,909,997</b>	<b>\$ 2,286,203</b>

## Schedule of Net Pension Liability SERS

	2016	2015
<b>Total pension liability</b>		
Service cost	\$ 12,384,960	\$ 11,405,611
Interest	26,359,257	25,718,424
Changes of benefit terms	-	86,298
Differences between expected and actual experience	6,483,011	18,507,784
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(24,597,020)	(22,884,026)
<b>Net change in total pension liability</b>	20,630,208	32,834,091
<b>Total pension liability—beginning</b>	491,393,125	458,559,034
<b>Total pension liability—ending (a)</b>	<u>\$ 512,023,333</u>	<u>\$ 491,393,125</u>
<b>Plan fiduciary net position</b>		
Contributions—employer	\$ 7,398,945	\$ 6,822,279
Contributions—member	7,402,905	6,822,279
Net investment income	(3,228,439)	14,497,901
Benefit payments, including refunds of member contributions	(24,597,020)	(22,884,026)
Administrative expense	(447,921)	(386,713)
Other	-	-
<b>Net change in plan fiduciary net position</b>	(13,471,530)	4,871,720
<b>Plan fiduciary net position—beginning</b>	285,772,821	280,901,101
<b>Plan fiduciary net position—ending (b)</b>	<u>\$ 272,301,291</u>	<u>\$ 285,772,821</u>
<b>Plan's net pension liability—ending (a) – (b)</b>	<u>\$ 239,722,042</u>	<u>\$ 205,620,304</u>
Less (Public Facilities District)	(600,946)	(474,484)
<b>Plan's net pension liability—Net of the PFD</b>	<u>\$ 239,121,096</u>	<u>\$ 205,145,820</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	53.18%	58.16%
<b>Covered-employee payroll</b>	\$ 93,899,096	\$ 89,034,522
<b>Plan's net pension liability as a percentage of covered-employee payroll</b>	255.30%	230.90%

\*The amount presented for each fiscal year were determined as of the end of the previous fiscal year.

*Legislative and administrative changes.* Effective January 1, 2015, the following changes were enacted for all employees hired on or after January 1, 2015. 1) Early retirement is permitted at any time after attaining age 50 with the sum of age plus years of eligible service greater than or equal to 80, 2) Final compensation is defined as the highest average annual compensation received during any three consecutive years, 3) Normal retirement date is defined as the first day of the month coinciding with or next following the attainment of age 65 and completion of 7 years of eligible service, and 4) Benefit eligibility at termination requires at least 7 years of eligible service.

Effective September 1, 2014, the annual Contribution Rate was changed to 16.50% of payroll (8.25% of pay paid by the Employee, 8.25% of pay paid by the Employer). Previously the Contribution Rate was 15.50% of payroll (7.75% of pay paid by the Employee, 7.75% of pay paid by the Employer).

## Schedule of Net Pension Liability Firefighters' Pension

	2016	2015
<b>Total pension liability</b>		
Service cost	\$ -	\$ -
Interest	831,429	938,119
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(2,281,571)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(1,306,840)	(1,340,440)
<b>Net change in total pension liability</b>	(475,411)	(2,683,892)
<b>Total pension liability—beginning</b>	21,432,740	24,116,632
<b>Total pension liability—ending (a)</b>	<u>\$ 20,957,329</u>	<u>\$ 21,432,740</u>
<b>Plan fiduciary net position</b>		
Contributions—employer	\$ 2,345,156	\$ 1,529,654
Contributions—member	-	-
Net investment income	116,370	295,093
Benefit payments, including refunds of member contributions	(1,306,840)	(1,340,440)
Administrative expense	(30,577)	(13,889)
Other	-	-
<b>Net change in plan fiduciary net position</b>	1,124,109	470,418
<b>Plan fiduciary net position—beginning</b>	13,919,970	13,449,552
<b>Plan fiduciary net position—ending (b)</b>	<u>\$ 15,044,079</u>	<u>\$ 13,919,970</u>
<b>Plan's net pension liability—ending (a) – (b)</b>	<u>\$ 5,913,250</u>	<u>\$ 7,512,770</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	71.78%	64.95%
<b>Covered-employee payroll</b>	N/A	N/A
<b>Plan's net pension liability as a percentage of covered-employee payroll</b>	N/A	N/A

\*The amount presented for each fiscal year were determined as of the end of the previous fiscal year.

*Legislative and administrative changes.* Effective January 1, 2015, the following changes were enacted for all employees hired on or after January 1, 2015. 1) Early retirement is permitted at any time after attaining age 50 with the sum of age plus years of eligible service greater than or equal to 80, 2) Final compensation is defined as the highest average annual compensation received during any three consecutive years, 3) Normal retirement date is defined as the first day of the month coinciding with or next following the attainment of age 65 and completion of 7 years of eligible service, and 4) Benefit eligibility at termination requires at least 7 years of eligible service.

Effective September 1, 2014, the annual Contribution Rate was changed to 16.50% of payroll (8.25% of pay paid by the Employee, 8.25% of pay paid by the Employer). Previously the Contribution Rate was 15.50% of payroll (7.75% of pay paid by the Employee, 7.75% of pay paid by the Employer).

## Schedule of Net Pension Liability

### Police Pension

	2016	2015
<b>Total pension liability</b>		
Service cost	\$ -	\$ -
Interest	288,058	341,929
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(1,233,517)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(705,257)	(1,100,056)
<b>Net change in total pension liability</b>	(417,199)	(1,991,644)
<b>Total pension liability—beginning</b>	9,951,967	11,943,611
<b>Total pension liability—ending (a)</b>	<u>\$ 9,534,768</u>	<u>\$ 9,951,967</u>
<b>Plan fiduciary net position</b>		
Contributions—employer	\$ 734,966	\$ 850,789
Contributions—member	-	-
Net investment income	-	-
Benefit payments, including refunds of member contributions	(705,257)	(1,100,056)
Administrative expense	(27,666)	(12,985)
Other	-	-
<b>Net change in plan fiduciary net position</b>	2,043	(262,252)
<b>Plan fiduciary net position—beginning</b>	613,023	875,275
<b>Plan fiduciary net position—ending (b)</b>	<u>\$ 615,066</u>	<u>\$ 613,023</u>
<b>Plan's net pension liability—ending (a) – (b)</b>	<u>\$ 8,919,702</u>	<u>\$ 9,338,944</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	6.5%	6.2%
<b>Covered-employee payroll</b>	N/A	N/A
<b>Plan's net pension liability as a percentage of covered-employee payroll</b>	N/A	N/A

\*The amount presented for each fiscal year were determined as of the end of the previous fiscal year.

*Legislative and administrative changes.* Effective January 1, 2015, the following changes were enacted for all employees hired on or after January 1, 2015. 1) Early retirement is permitted at any time after attaining age 50 with the sum of age plus years of eligible service greater than or equal to 80, 2) Final compensation is defined as the highest average annual compensation received during any three consecutive years, 3) Normal retirement date is defined as the first day of the month coinciding with or next following the attainment of age 65 and completion of 7 years of eligible service, and 4) Benefit eligibility at termination requires at least 7 years of eligible service.

Effective September 1, 2014, the annual Contribution Rate was changed to 16.50% of payroll (8.25% of pay paid by the Employee, 8.25% of pay paid by the Employer). Previously the Contribution Rate was 15.50% of payroll (7.75% of pay paid by the Employee, 7.75% of pay paid by the Employer).

## Schedule of City's Proportionate Share of the Net Pension Liability (Asset)

### LEOFF 1

	2016	2015
City's proportion of the net pension liability (asset)	0.9642%	0.9613%
City's proportionate share of the net pension liability (asset) (in thousands)	\$ (9,935)	\$ (11,586)
City's covered employee payroll (in thousands)	\$ 76	\$ 102
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-12989.69%	-11387.85%
Plan's fiduciary net position as a percentage of the total pension liability (asset)	123.74%	127.36%
This table will be built prospectively until it contains 10 years of data		

### LEOFF 2

	2016	2015
City's proportion of the net pension liability (asset)	2.0361%	2.0020%
City's proportionate share of the net pension liability (asset) (in thousands)	\$ (11,842)	\$ (20,576)
City's covered employee payroll (in thousands)	\$ 36,731	\$ 34,918
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-32.24%	-58.93%
Plan's fiduciary net position as a percentage of the total pension liability (asset)	106.04%	111.67%
This table will be built prospectively until it contains 10 years of data		

## Schedule of Employer Contributions

### SERS

	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 9,853,762	\$ 9,069,276	\$ 8,292,066	\$ 8,237,317	\$ 8,325,936
Contributions in relation to the actuarially determined contribution	7,586,362	7,398,945	6,822,279	6,715,376	6,937,750
Contribution deficiency (excess)	\$ 2,267,400	\$ 1,670,331	\$ 1,469,787	\$ 1,521,941	\$ 1,388,186
Covered-employee payroll	\$ 91,955,903	\$ 89,684,182	\$ 86,139,886	\$ 86,650,013	\$ 89,519,355
Contributions as a percentage of covered-employee payroll	8.25%	8.25%	7.92%	7.75%	7.75%
	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 10,010,885	\$ 8,955,055	\$ 8,267,280	\$ 8,826,967	\$ 5,742,761
Contributions in relation to the actuarially determined contribution	6,799,258	6,580,795	6,474,432	4,875,443	4,518,363
Contribution deficiency (excess)	\$ 3,211,627	\$ 2,374,260	\$ 1,792,848	\$ 3,951,524	\$ 1,224,398
Covered-employee payroll	\$ 90,264,062	\$ 88,093,679	\$ 83,455,429	\$ 74,183,014	\$ 69,261,673
Contributions as a percentage of covered-employee payroll	7.75%	7.75%	7.75%	6.72%	6.72%

## Schedule of Employer Contributions Firefighters' Pension

	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 519,891	\$ 519,891	\$ 864,697	\$ 864,697	\$ 1,070,804
Contributions in relation to the actuarially determined contribution	2,137,287	2,314,579	1,515,765	2,183,389	439,804
Contribution deficiency (excess)	\$ (1,617,396)	\$ (1,794,688)	\$ (651,068)	\$ (1,318,692)	\$ 631,000
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

## Schedule of Employer Contributions Police Pension

	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 585,998	\$ 585,998	\$ 586,637	\$ 586,637	\$ 734,291
Contributions in relation to the actuarially determined contribution	766,915	707,300	837,804	845,079	869,885
Contribution deficiency (excess)	\$ (180,917)	\$ (121,302)	\$ (251,167)	\$ (258,442)	\$ (135,594)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

## Schedule of Employer Contributions LEOFF 1

City's Proportionate Share (in thousands)	2016	2015 Restated
Contractually required contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	1
Contribution deficiency (excess)	\$ -	\$ (1)
Covered-employee payroll	76	102
Contributions as a percentage of covered-employee payroll	0.00%	0.57%

This table will be built prospectively until it contains 10 years of data

## Schedule of Employer Contributions LEOFF 2

City's Proportionate Share (in thousands)	2016	2015
Contractually required contribution	\$ 3,089	\$ 2,951
Contributions in relation to the actuarially determined contribution	3,103	2,952
Contribution deficiency (excess)	\$ (14)	\$ (1)
Covered-employee payroll	36,731	34,918
Contributions as a percentage of covered-employee payroll	8.45%	8.45%

This table will be built prospectively until it contains 10 years of data



## Other Postemployment Benefits Schedule of Employer Contributions Firefighters' Pension

	2016	2015	2014	2013	2012
Employer's annual required contribution	\$ 2,778	\$ 2,778	\$ 3,377	\$ 3,377	\$ 5,056
Employer's actual contribution	2,778	2,778	3,377	3,377	5,099
Percentage contributed	100%	100%	100%	100%	101%
Annual OPEB cost	2,778	2,778	3,377	3,377	5,056
Net OPEB obligation	\$ -	\$ -	\$ -	\$ -	\$ -

	2011	2010	2009	2008	2007
Employer's annual required contribution	\$ 5,056	\$ 4,311	\$ 4,311	\$ 3,657	\$ 3,657
Employer's actual contribution	5,013	4,311	4,311	3,657	3,657
Percentage contributed	99%	100%	100%	100%	100%
Annual OPEB cost	5,056	4,311	4,311	3,657	3,657
Net OPEB obligation	\$ 43	\$ -	\$ -	\$ -	\$ -

## Other Postemployment Benefits Schedule of Employer Contributions Police Pension

	2016	2015	2014	2013	2012
Employer's annual required contribution	\$ 3,944	\$ 3,944	\$ 4,380	\$ 4,380	\$ 5,877
Employer's actual contribution	2,703	2,733	3,041	2,496	2,811
Percentage contributed	69%	69%	69%	57%	48%
Annual OPEB cost	3,459	3,539	4,028	4,093	5,712
Net OPEB obligation	\$ 14,673	\$ 13,917	\$ 13,111	\$ 12,124	\$ 10,527

	2011	2010	2009	2008	2007
Employer's annual required contribution	\$ 5,877	\$ 4,573	\$ 4,573	\$ 3,470	\$ 3,470
Employer's actual contribution	2,856	3,398	2,747	2,606	2,522
Percentage contributed	49%	74%	60%	75%	73%
Annual OPEB cost	5,782	4,505	4,541	3,458	3,470
Net OPEB obligation	\$ 7,626	\$ 4,700	\$ 3,593	\$ 1,799	\$ 948

## Other Postemployment Benefits Schedule of Funding Progress Firefighters' Pension

Valuation Date	Actuarial Value of Assets (in thousands)	Actuarial Accrued Liabilities (in thousands)	Unfunded Actuarial Liabilities (UAAL) (in thousands)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ 3,347	\$ 55,666	\$ 52,319	6.0%	N/A	N/A
12/31/2008	5,133	65,479	60,346	7.8%	N/A	N/A
12/31/2010	7,889	77,975	70,086	10.1%	N/A	N/A
12/31/2012	12,576	62,779	50,203	20.0%	N/A	N/A
12/31/2014	13,998	54,093	40,095	25.9%	N/A	N/A
12/31/2016	13,966	50,537	36,571	27.6%	N/A	N/A

## Other Postemployment Benefits Schedule of Funding Progress Police Pension

Valuation Date	Actuarial Value of Assets (in thousands)	Actuarial Accrued Liabilities (in thousands)	Unfunded Actuarial Liabilities (UAAL) (in thousands)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ -	\$ 51,370	\$ 51,370	0.0%	N/A	N/A
12/31/2008	-	74,045	74,045	0.0%	N/A	N/A
12/31/2010	-	91,069	91,069	0.0%	N/A	N/A
12/31/2012	-	73,197	73,197	0.0%	N/A	N/A
12/31/2014	-	62,745	62,745	0.0%	N/A	N/A
12/31/2016	-	55,943	55,943	0.0%	N/A	N/A

## Schedule of Investment Returns Spokane Employee Retirement System (SERS)

	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	6.71%	-0.94%	5.34%	18.89%	11.70%	-2.80%	13.47%	21.99%	24.68%

# Notes to the Required Supplementary Information

For the Fiscal Year Ended December 31, 2016

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial methods and significant assumptions used in these valuations are available in the publicly available actuary reports for the three pension plans. These reports may be obtained by writing to the Spokane Employees' Retirement System, City Hall, 808 West Spokane Falls Blvd, Spokane, Washington, 99201 or by calling (509) 625-6330.

**CITY OF SPOKANE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2016**

1	2	3	4	5			6	7
FEDERAL AGENCY NAME/PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	EXPENDITURES			PASSED THROUGH TO SUBRECIPIENTS	NOTE
				From Pass-Through Awards	From Direct Awards	Total		
U. S. Department of Housing and Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-553-0006		2,963,236.82		1,986,936.43	7
			B-15-MC-553-0006					
			B-16-MC-553-0006					
			Program Income		<u>1,308,737.45</u>		<u>1,239,068.45</u>	3
			Subtotal		4,271,974.27	4,271,974.27	3,226,004.88	
U. S. Department of Housing and Urban Development	Emergency Solutions Grant Program	14.231	E13-MC-53-0002		289,298.81	289,298.81	227,441.25	7
			E14-MC-53-0002					
			E15-MC-53-0006					
			E16-MC-53-0006					
U. S. Department of Housing and Urban Development	Home Investment Partnerships Program	14.239	M-13-MC-53-0201		187,344.46		104,846.00	7
			M-14-MC-53-0201					
			M-15-MC-53-0201					
			M-16-MC-53-0201					
			Program Income		<u>462,504.60</u>		<u>-</u>	3
			Subtotal		649,849.06	649,849.06	104,846.00	
U. S. Department of Housing and Urban Development	Neighborhood Initiative and Miscellaneous Grants	14.251	B-09-NI-WA-0009		65,168.11	65,168.11	61,488.54	7
U. S. Department of Housing and Urban Development	Continuum of Care Program	14.267	WA0288LOT021300		3,196,316.65	3,196,316.65	2,799,041.86	7
			WA0106LOT021407					
			WA0109LOT021407					
			WA0110LOT021407					
			WA0111LOT021407					
			WA0113LOT021407					
			WA0118LOT021407					
			WA0119LOT021407					
			WA0120LOT021407					
			WA0122LOT021407					
			WA0123LOT021407					
			WA0124LOT021407					
			WA0125LOT021407					
			WA0126LOT021407					
			WA0127LOT021407					
			WA0128LOT021407					
			WA0129LOT021407					
			WA0130LOT021407					
			WA0133LOT021407					
			WA0136LOT021407					
			WA0218LOT021404					
			WA0248LOT021403					
			WA0265LOT021402					
			WA0285LOT021401					
			WA0288LOT021400					
			WA0301LOT021400					
			WA0302LOT021400					
			WA0109LOT021508					
			WA0111LOT021508					
			WA0113LOT021508					
			WA0118LOT021508					
			WA0119LOT021508					
			WA0122LOT021508					
			WA0125LOT021508					
			WA0126LOT021508					
			WA0127LOT021508					
			WA0128LOT021508					
			WA0129LOT021508					
			WA0130LOT021508					
			WA0218LOT021505					
			WA0248LOT021504					
			WA0285LOT021502					
			WA0288LOT021502					
			WA0302LOT021501					
			WA0329LOT021500					
			WA0330LOT021500					
			WA0331LOT021500					
			WA0332LOT021500					
			WA0333LOT021500					
			WA0353LOT021500					
U.S. Department of the Interior/Pass-through WA State Department of Archaeology and Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY16-61016-010	7,200.00		7,200.00	-	2
U.S. Department of Justice	Youth Gang Prevention	16.544	2016-JV-FX-0005		1,499.58	1,499.58	-	
U.S. Department of Justice/Pass-through from Spokane County Sheriff's Office	Violence Against Women Formula Grants	16.588	FY15-31103-029	10,000.00		10,000.00	-	2
U.S. Department of Justice	Public Safety Partnership and Community Policing Grants	16.710	2013ULWX0053		29,381.28		-	2
			2014ULWX0016		<u>197,203.33</u>		<u>-</u>	2
			Subtotal		226,584.61	226,584.61	-	
U.S. Department of Justice/Pass-through from Center for Court Innovation	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DC-NY-K002	7,412.81		7,412.81	-	
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0215		80,985.00		-	
			2015-DJ-BX-0549		<u>90,314.85</u>		<u>66,156.00</u>	
			Subtotal		171,299.85	171,299.85	66,156.00	
			Total - CFDA 16.738	7,412.81	171,299.85	178,712.66	66,156.00	
U.S. Department of Justice	Equitable Sharing Program	16.922	WA0320400		107,709.33	107,709.33	-	
U.S. Department of Justice/Pass-through from WA State Patrol	Domestic Cannabis Eradication/Suppression	16.K12122	K12122	15,000.00		15,000.00	-	8(a)

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

**CITY OF SPOKANE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2016**

1	2	3	4	5			6	7	
FEDERAL AGENCY NAME/PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER AWARD NUMBER	EXPENDITURES			PASSED THROUGH TO SUBRECIPIENTS	NOTE	
				From Pass-Through Awards	From Direct Awards	Total			
U.S. Department of Transportation/Pass-through from WA State Department of Transportation	Highway Planning and Construction	20.205	STPUL-STPE-CM-1220(025) CM-9932(039) CM-0002(828) CM-3948(005) HSIP-000S(333) STPUL-9932(046) CM-3881(006) CM-3960(002) STPE-1220(032) CM-3933(001) STPUL-3792(001) HSIP-3391(003) STPUL-3900(004) STPUL-3756(005) STPUL-1220(033) STPUL-0002(314) HSIP-3900(005) SRTS-3930(001) SRTS-3881(008) CM-1220(034) STPD-3850(006) <div>Subtotal</div>	5,006,919.81 <div>729,211.56</div> <div>5,736,131.37</div>				- - -	2
U.S. Department of Transportation	Motor Carrier Safety Assistance	20.218	FM-MHP-0211-15-01-00 FM-MHP-0273-16-01-00 <div>Subtotal</div>		29,497.36 9,162.50 38,659.86		5,736,131.37 <div>38,659.86</div>	- - -	2 2
U.S. Department of Transportation/Pass-through from WA StateTraffic Safety Commission	Highway Safety Cluster - State and Community Highway Safety	20.600	#Section 402-Flex #Section 402-Distracted Driving LEL (Law Enforcement Liason)	6,061.05		6,061.05		-	
U.S. Department of Transportation/Pass-through from WA Association of Sheriffs and Police Chiefs	Highway Safety Cluster - State and Community Highway Safety	20.600	WASPC Sector Equipment	15,753.58		15,753.58		-	
Total - CFDA 20.600				21,814.63		21,814.63		-	
U.S. Department of Transportation/Pass-through from Washington Traffic Safety Commission	Highway Safety Cluster - National Priority Safety Programs	20.616	#MAP-21 Section 405d-Flex #MAP-21 Section 405b-Seatbelts #MAP-21 Section 405d-DUI #MAP-21 Section 405d-Ped. Safety #Section 405d-DUI	48,535.60		48,535.60		-	
Total Highway Safety Cluster				70,350.23		70,350.23		-	
US Department of Treasury	Equitable Sharing Program	21.WA0320400	WA0320400		16,095.54	16,095.54		-	8(b)
Environmental Protection Agency/Pass-through from WA State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	Pacific and Perry Erie Street Riverside CSO Basin 41 CSO Basin 25 CSO Basins 14 & 15 L1300014 L1300015 L1300020 L1400004 L1400007 L1400011 L1400015 WQC-2015-Spokane-00038 WQC-2015-Spokane-00025 <div>Subtotal</div>	331,975.09 <div>8,766,061.96</div> <div>9,098,037.05</div>			9,098,037.05	-	4(a), 7, 9 4(a), 7
Envirnmental Protection Agency/Pass-through form Washington State Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM13-952-123	1,686,187.44		1,686,187.44		-	4(b), 7
Environmental Protection Agency	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	00J99901		129,851.24	129,851.24		-	
Environmental Protection Agency	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	01J11001		154,634.10	154,634.10		-	
U. S. Department of Homeland Security/ Pass-through from Washington State Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-615	950,761.90		950,761.90		-	
U. S. Department of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2013-FO-07107		41,587.53	41,587.53		-	2
U.S. Department of Homeland Security/ Pass-through from Spokane Valley Fire Department	Assistance to Firefighters Grant	97.044	EMW-2015-FR-00409	31,491.80		31,491.80		-	2, 5
Total - CFDA 97.044				31,491.80	41,587.53	73,079.33		-	
U. S. Department of Homeland Security/ Pass-through from Spokane County Greater Spokane Department of Emergency Management	Homeland Security Grant Program	97.067	EMW-2013-SS-00025-S01	36,757.99		36,757.99		-	6
U. S. Department of Homeland Security	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00768		1,116,389.42	1,116,389.42		-	
Total Federal Awards Expended				17,649,330.59	10,476,917.96	28,126,248.55	6,484,978.53		

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

City of Spokane, Washington

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

**Note 1 – Basis of Accounting**

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting for all governmental funds. The accrual basis of accounting is used for all proprietary, non-expendable trust and pension trust funds.

**Note 2 – Program Costs**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3 – Revolving Loan – Program Income**

The City has a revolving loan program for low income housing renovation. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$1,295,850.85 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was \$1,219,400.56.

<b>Program</b>	<b>Balance 1/1/2016</b>	<b>Loans Disbursed</b>	<b>Payments Received</b>	<b>Forgiveness &amp; Write-offs</b>	<b>Balance 12/31/16</b>
CDBG	17,380,137.70	869,063.77	(892,958.91)	(124,890.82)	17,231,351.74
HOME	17,335,120.04	426,787.08	(270,515.85)	(162,838.05)	17,328,553.22
Lead Safe Spokane	931,347.18	-	(19,033.69)	(119,474.43)	792,839.06
Housing Assistance/ Neighborhood Stabilization	3,135,780.60	-	(36,892.11)	(21,457.28)	3,077,431.21
<b>Total</b>	<b>38,782,385.52</b>	<b>1,295,850.85</b>	<b>(1,219,400.56)</b>	<b>(428,660.58)</b>	<b>38,430,175.23</b>

**Note 4 – Federal Loans**

(a) The City was approved by the State of Washington Department of Ecology to receive loans totaling \$48,051,673.76 to improve its drinking water system. The Department of Ecology computes the ratio that is used to determine Federal funds from State funds for loan proceeds received by the City. While the amount of \$9,098,037.05 reported on the SEFA is 100% of expenditures used during the year, reimbursement for the federal portion of these loans is \$7,581,394.44 based on 83.33% as determined by the Department of Ecology.

(b) The City was approved by the PWB (Washington State Public Works Board) to receive

loans totaling \$10,192,820 to improve its drinking water system. The amount listed for these loans include the proceeds used during the year. Total federal expenditures for these loans were \$1,686,187.44.

Both the current and prior year loans are also reported on the City's Schedule of Liabilities.

**Note 5 – Noncash Awards – Subscriptions**

The City received 102 Blue Card subscriptions from Spokane Valley Fire Department that were purchased with federal Homeland Security Funds. The amount reported on the SEFA is the value of the federally paid portion of the subscriptions on the date it was received by the City and priced by Spokane Valley Fire Department.

**Note 6 – Noncash Awards – Equipment**

The City received equipment from Spokane County Greater Spokane Department of Emergency Management that was purchased with federal Homeland Security funds. The amount reported on the SEFA is the value of the federally paid portion of the property on the date it was received by the City and priced by Spokane City/County Department of Emergency Management (DEM).

**Note 7 – Indirect Cost Rate**

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The amount expended includes amounts claimed as an indirect cost recovery using an indirect cost rate of up to 105.08%, depending on the allowable maximum amount per the grant and the department charging the grant.

**Note 8 – CFDA Number Clarification**

- (a) The U.S. Department of Justice Domestic Cannabis Eradication/Suppression Program does not have a distinct CFDA number. It is presented on the SEFA as 16.K12122 which is the U.S. Department of Justice federal agency's two digit prefix followed by the contract or grant number.
- (b) The U.S. Department of Treasury Equitable Sharing Program does not have a distinct CFDA number. It is presented on the SEFA as 21.WA0320400 which is the U.S. Department of Treasury federal agency's two digit prefix followed by the NCIC/ORI/Tracking Number.

**Note 9 – Potential Federal Loans**

The City has applied for a Capitalization Grant for Clean Water State Revolving Funds loan to pay for this program. As these expenditures will possibly be paid for with federal funds, they have been included on this schedule. Should the City's loan request be refused, these programs will be removed in future years. Otherwise they will continue to be reported each year that expenditures exist until all loan funds have been expended.

**City of Spokane, Washington**  
**Schedule for General Fund Accounts**  
**Balance Sheet**  
**December 31, 2016**

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,543,842	\$ 40,249	\$ 83,185	\$ 17,024	\$ 73
Deposits with fiscal agents/trustees	18,725	-	-	-	-
Equity in pooled investments	15,064,036	174,162	1,562,176	73,666	317
Taxes receivable	13,625,169	462,513	-	-	-
Accounts receivable	3,537,879	-	30,837	12,786	-
Interest receivable	1,596,816	-	1,052	-	-
Due from other funds	6,137,453	67,780	3,743	-	-
Interfund loan receivable	2,028,852	-	12,745	-	-
Due from other governments	294,846	-	-	-	-
Advances to other funds	961,266	-	87,251	-	-
Inventories	1,198	-	-	-	-
Notes/contract receivable (non-current)	-	-	-	-	-
<b>Total Assets</b>	<b>44,810,082</b>	<b>744,704</b>	<b>1,780,989</b>	<b>103,476</b>	<b>390</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>44,810,082</b>	<b>744,704</b>	<b>1,780,989</b>	<b>103,476</b>	<b>390</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities:</b>					
Accounts/vouchers payable	1,265,137	22,033	84,630	8,078	-
Due to other funds	879,017	422,740	2,961	1,415	-
Due to other governments	434,775	-	-	-	-
Revenues collected in advance	57,500	-	-	-	-
Other accrued liabilities	3,316,929	61,514	197,875	-	-
Other current liabilities	784,252	-	98	-	-
<b>Total Liabilities</b>	<b>6,737,610</b>	<b>506,287</b>	<b>285,564</b>	<b>9,493</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes	2,010,318	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>2,010,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	<b>8,747,928</b>	<b>506,287</b>	<b>285,564</b>	<b>9,493</b>	<b>-</b>
<b>FUND BALANCE:</b>					
Nonspendable	961,266	-	87,251	-	-
Restricted - grants	-	-	-	-	-
Committed	704,165	-	-	93,983	390
Assigned	15,347,597	238,417	1,408,174	-	-
Unassigned	19,049,126	-	-	-	-
<b>Total Fund Balance (Deficit)</b>	<b>36,062,154</b>	<b>238,417</b>	<b>1,495,425</b>	<b>93,983</b>	<b>390</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 44,810,082</b>	<b>\$ 744,704</b>	<b>\$ 1,780,989</b>	<b>\$ 103,476</b>	<b>\$ 390</b>



**City of Spokane, Washington**  
**Schedule for General Fund Accounts**  
**Balance Sheet**  
**December 31, 2016**  
**(Continued)**

	Capital Improvement Program	Hope Acquisition	Housing Trust Grant	Cumulative Reserve
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,554	\$ 2,966	\$ 596	\$ 4,237
Deposits with fiscal agents/trustees	-	-	-	-
Equity in pooled investments	68,385	253,929	190,615	18,332
Taxes receivable	-	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	-	345	268	-
Due from other funds	-	-	-	-
Interfund loan receivable	11	2,442	1,904	-
Due from other governments	-	-	-	-
Advances to other funds	75	16,716	13,037	-
Inventories	-	-	-	-
Notes/contract receivable (non-current)	-	139,298	15,372	-
<b>Total Assets</b>	<b>84,025</b>	<b>415,696</b>	<b>221,792</b>	<b>22,569</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>84,025</b>	<b>415,696</b>	<b>221,792</b>	<b>22,569</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts/vouchers payable	-	160	-	-
Due to other funds	-	-	24	-
Due to other governments	-	-	-	-
Revenues collected in advance	-	-	-	-
Other accrued liabilities	-	-	-	-
Other current liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>160</b>	<b>24</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	<b>-</b>	<b>160</b>	<b>24</b>	<b>-</b>
<b>FUND BALANCE:</b>				
Nonspendable	75	16,716	13,037	-
Restricted - grants	-	398,820	208,731	-
Committed	-	-	-	-
Assigned	83,950	-	-	22,569
Unassigned	-	-	-	-
<b>Total Fund Balance (Deficit)</b>	<b>84,025</b>	<b>415,536</b>	<b>221,768</b>	<b>22,569</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 84,025</b>	<b>\$ 415,696</b>	<b>\$ 221,792</b>	<b>\$ 22,569</b>

**City of Spokane, Washington**  
**Schedule for General Fund Accounts**  
**Balance Sheet**  
**December 31, 2016**  
**(Continued)**

	<b>Emergency Medical Services</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 95,859	\$ -	\$ 1,803,585
Deposits with fiscal agents/trustees	10,226	-	28,951
Equity in pooled investments	3,407,047	-	20,812,665
Taxes receivable	204,237	-	14,291,919
Accounts receivable	212,021	-	3,793,523
Interest receivable	1,113	-	1,599,594
Due from other funds	57,634	(486,637)	5,779,973
Interfund loan receivable	30,303	-	2,076,257
Due from other governments	427,089	-	721,935
Advances to other funds	207,455	-	1,285,800
Inventories	-	-	1,198
Notes/contract receivable (non-current)	-	-	154,670
<b>Total Assets</b>	<b>4,652,984</b>	<b>(486,637)</b>	<b>52,350,070</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>4,652,984</b>	<b>(486,637)</b>	<b>52,350,070</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts/vouchers payable	189,848	-	1,569,886
Due to other funds	364,362	(486,637)	1,183,882
Due to other governments	10,825	-	445,600
Revenues collected in advance	-	-	57,500
Other accrued liabilities	1,662,342	-	5,238,660
Other current liabilities	9,564	-	793,914
<b>Total Liabilities</b>	<b>2,236,941</b>	<b>(486,637)</b>	<b>9,289,442</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes	140,313	-	2,150,631
<b>Total Deferred Inflows of Resources</b>	<b>140,313</b>	<b>-</b>	<b>2,150,631</b>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	<b>2,377,254</b>	<b>(486,637)</b>	<b>11,440,073</b>
<b>FUND BALANCE:</b>			
Nonspendable	207,455	-	1,285,800
Restricted - grants	-	-	607,551
Committed	2,068,275	-	2,866,813
Assigned	-	-	17,100,707
Unassigned	-	-	19,049,126
<b>Total Fund Balance (Deficit)</b>	<b>2,275,730</b>	<b>-</b>	<b>40,909,997</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 4,652,984</b>	<b>\$ (486,637)</b>	<b>\$ 52,350,070</b>

City of Spokane, Washington  
Schedule of General Fund Accounts  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Fiscal Year Ended December 31, 2016  
(Continued)

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities
<b>REVENUES</b>					
Taxes	\$ 143,433,236	\$ 22,134	\$ -	\$ -	\$ -
Licenses and permits	6,624,475	-	-	-	-
Intergovernmental	3,261,401	-	9,196	-	-
Charges for services	16,681,849	795,857	18,050	-	-
Fines and forfeitures	2,853,200	-	123,343	-	-
Miscellaneous	8,030,908	364,140	109,368	173,704	-
Net inc(dec) in market value of investments	(6,220,198)	-	-	-	-
<b>Total Revenues</b>	<b>174,664,871</b>	<b>1,182,131</b>	<b>259,957</b>	<b>173,704</b>	<b>-</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General government	30,150,004	-	-	-	-
Public safety	58,075,957	1,898,483	-	-	-
Transportation	5,962,278	-	-	94,792	-
Economic environment	5,398,495	-	-	-	-
Social services	1,712,802	-	-	-	-
Culture and recreation	45,000	-	7,740,349	-	-
<b>Capital outlays</b>	<b>293,482</b>	<b>-</b>	<b>1,090,489</b>	<b>-</b>	<b>-</b>
<b>Debt service:</b>					
Interest	66,518	-	-	-	-
<b>Total Expenditures</b>	<b>101,704,536</b>	<b>1,898,483</b>	<b>8,830,838</b>	<b>94,792</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>72,960,335</b>	<b>(716,352)</b>	<b>(8,570,881)</b>	<b>78,912</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	93,028	35,200	-	-	-
Transfers in	137,522	752,622	9,343,482	-	-
Transfers out	(76,108,488)	-	(56,996)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(75,877,938)</b>	<b>787,822</b>	<b>9,286,486</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(2,917,603)</b>	<b>71,470</b>	<b>715,605</b>	<b>78,912</b>	<b>-</b>
<b>Fund Balance - beginning (Note 1)</b>	<b>37,321,456</b>	<b>166,947</b>	<b>779,249</b>	<b>15,071</b>	<b>390</b>
Prior Period Adjustment	1,658,301	-	571	-	-
<b>Fund Balance - beginning (restated)</b>	<b>38,979,757</b>	<b>166,947</b>	<b>779,820</b>	<b>15,071</b>	<b>390</b>
<b>Fund Balance - ending</b>	<b>\$ 36,062,154</b>	<b>\$ 238,417</b>	<b>\$ 1,495,425</b>	<b>\$ 93,983</b>	<b>\$ 390</b>

City of Spokane, Washington  
Schedule of General Fund Accounts  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Fiscal Year Ended December 31, 2016  
(Continued)

	Capital Improvement Program	Hope Acquisition	Housing Trust Grant	Cumulative Reserve
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	3	260	179	-
Net inc(dec) in market value of investments	-	-	-	-
<b>Total Revenues</b>	<u>3</u>	<u>260</u>	<u>179</u>	<u>-</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Transportation	32	-	-	-
Economic environment	-	3,369	195	-
Social services	-	-	-	-
Culture and recreation	-	-	-	-
<b>Capital outlays</b>	-	-	-	-
<b>Debt service:</b>				
Interest	-	-	-	-
<b>Total Expenditures</b>	<u>32</u>	<u>3,369</u>	<u>195</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(29)</u>	<u>(3,109)</u>	<u>(16)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>(29)</u>	<u>(3,109)</u>	<u>(16)</u>	<u>-</u>
<b>Fund Balance - beginning (Note 1)</b>	84,054	418,066	221,308	22,569
Prior Period Adjustment	-	579	476	-
<b>Fund Balance - beginning (restated)</b>	<u>84,054</u>	<u>418,645</u>	<u>221,784</u>	<u>22,569</u>
<b>Fund Balance - ending</b>	<u>\$ 84,025</u>	<u>\$ 415,536</u>	<u>\$ 221,768</u>	<u>\$ 22,569</u>

**City of Spokane, Washington**  
**Schedule of General Fund Accounts**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2016**  
**(Continued)**

	<b>Emergency Medical Services</b>	<b>Eliminations</b>	<b>Total</b>
<b>REVENUES</b>			
Taxes	\$ 7,746,219	\$ -	\$ 151,201,589
Licenses and permits	368,240	-	6,992,715
Intergovernmental	1,278,463	-	4,549,060
Charges for services	893,809	-	18,389,565
Fines and forfeitures	248,700	-	3,225,243
Miscellaneous	109,291	-	8,787,853
Net inc(dec) in market value of investments	-	-	(6,220,198)
<b>Total Revenues</b>	<u>10,644,722</u>	<u>-</u>	<u>186,925,827</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General government	-	-	30,150,004
Public safety	47,492,992	-	107,467,432
Transportation	-	-	6,057,102
Economic environment	-	-	5,402,059
Social services	-	-	1,712,802
Culture and recreation	-	-	7,785,349
<b>Capital outlays</b>	76,186	-	1,460,157
<b>Debt service:</b>			
Interest	-	-	66,518
<b>Total Expenditures</b>	<u>47,569,178</u>	<u>-</u>	<u>160,101,423</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(36,924,456)</u>	<u>-</u>	<u>26,824,404</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	1,780	-	130,008
Transfers in	37,200,000	(47,296,103)	137,523
Transfers out	(48,150)	47,296,103	(28,917,531)
<b>Total Other Financing Sources (Uses)</b>	<u>37,153,630</u>	<u>-</u>	<u>(28,650,000)</u>
<b>Net Change in Fund Balance</b>	<u>229,174</u>	<u>-</u>	<u>(1,825,596)</u>
<b>Fund Balance - beginning (Note 1)</b>	2,044,662	-	41,073,772
Prior Period Adjustment	1,894	-	1,661,821
<b>Fund Balance - beginning (restated)</b>	<u>2,046,556</u>	<u>-</u>	<u>42,735,593</u>
<b>Fund Balance - ending</b>	<u>\$ 2,275,730</u>	<u>\$ -</u>	<u>\$ 40,909,997</u>

**City of Spokane, Washington**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 143,952,000	\$ 143,951,000	\$ 143,433,236	\$ (517,764)
Licenses and permits	6,329,000	6,329,000	6,624,475	295,475
Intergovernmental	5,722,635	5,957,870	3,261,401	(2,696,469)
Charges for services	13,062,051	13,145,781	16,681,849	3,536,068
Fines and forfeitures	2,899,500	2,924,020	2,853,200	(70,820)
Miscellaneous	5,752,610	5,752,610	8,030,908	2,278,298
Net inc(dec) in market value of investments	-	-	(6,220,198)	(6,220,198)
<b>Total revenues</b>	<b>177,717,796</b>	<b>178,060,281</b>	<b>174,664,871</b>	<b>(3,395,410)</b>
<b>EXPENDITURES</b>				
General government	30,430,664	31,654,592	30,150,004	1,504,588
Public safety	56,579,938	56,345,525	58,075,957	(1,730,432)
Transportation	5,914,804	5,967,083	5,962,278	4,805
Economic environment	5,437,487	6,287,132	5,398,495	888,637
Social services	1,586,543	1,820,448	1,712,802	107,646
Culture and recreation	340,946	54,000	45,000	9,000
Capital outlays	92,788	327,285	293,482	33,803
Debt service:				
Interest and other related costs	10,000	10,000	66,518	(56,518)
<b>Total expenditures</b>	<b>100,393,170</b>	<b>102,466,065</b>	<b>101,704,536</b>	<b>761,529</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>77,324,626</b>	<b>75,594,216</b>	<b>72,960,335</b>	<b>(2,633,881)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	93,028	93,028
Transfers in	165,265	165,265	137,522	(27,743)
Transfers out	(77,484,463)	(77,625,563)	(76,108,488)	1,517,075
<b>Total other financing sources (uses)</b>	<b>(77,319,198)</b>	<b>(77,460,298)</b>	<b>(75,877,938)</b>	<b>1,582,360</b>
<b>Net change in fund balance</b>	<b>5,428</b>	<b>(1,866,082)</b>	<b>(2,917,603)</b>	<b>(1,051,521)</b>
<b>Fund Balance - beginning</b>	<b>37,321,456</b>	<b>37,321,456</b>	<b>37,321,456</b>	<b>-</b>
Prior Period Adjustment	123,549	123,549	1,658,301	1,534,752
<b>Fund Balance - beginning (restated)</b>	<b>37,445,005</b>	<b>37,445,005</b>	<b>38,979,757</b>	<b>1,534,752</b>
<b>Fund Balance - ending</b>	<b>\$ 37,450,433</b>	<b>\$ 35,578,923</b>	<b>\$ 36,062,154</b>	<b>\$ 483,231</b>

**City of Spokane, Washington**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Code Enforcement**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 22,134	\$ 22,134
Charges for services	829,854	864,854	795,857	(68,997)
Fines and forfeitures	3,000	3,000	-	(3,000)
Miscellaneous	245,000	245,000	364,140	119,140
<b>Total revenues</b>	<b>1,077,854</b>	<b>1,112,854</b>	<b>1,182,131</b>	<b>69,277</b>
<b>EXPENDITURES</b>				
Public safety	1,817,333	1,955,118	1,898,483	56,635
Capital outlays	-	1,500	-	1,500
<b>Total expenditures</b>	<b>1,817,333</b>	<b>1,956,618</b>	<b>1,898,483</b>	<b>58,135</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(739,479)</b>	<b>(843,764)</b>	<b>(716,352)</b>	<b>127,412</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	35,200	35,200
Transfers in	745,000	745,000	752,622	7,622
<b>Total other financing sources (uses)</b>	<b>745,000</b>	<b>745,000</b>	<b>787,822</b>	<b>42,822</b>
<b>Net change in fund balance</b>	<b>5,521</b>	<b>(98,764)</b>	<b>71,470</b>	<b>170,234</b>
<b>Fund Balance - beginning</b>	<b>166,947</b>	<b>166,947</b>	<b>166,947</b>	<b>-</b>
Prior Period Adjustment	-	-	-	-
<b>Fund Balance - beginning (restated)</b>	<b>166,947</b>	<b>166,947</b>	<b>166,947</b>	<b>-</b>
<b>Fund Balance - ending</b>	<b>\$ 172,468</b>	<b>\$ 68,183</b>	<b>\$ 238,417</b>	<b>\$ 170,234</b>

City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Library  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 9,196	\$ (90,804)
Charges for services	26,000	26,000	18,050	(7,950)
Fines and forfeitures	200,000	200,000	123,343	(76,657)
Miscellaneous	61,150	61,150	109,368	48,218
<b>Total revenues</b>	<b>387,150</b>	<b>387,150</b>	<b>259,957</b>	<b>(127,193)</b>
<b>EXPENDITURES</b>				
Culture and recreation	8,426,845	8,454,367	7,740,349	714,018
Capital outlays	1,133,500	1,120,978	1,090,489	30,489
<b>Total expenditures</b>	<b>9,560,345</b>	<b>9,575,345</b>	<b>8,830,838</b>	<b>744,507</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(9,173,195)</b>	<b>(9,188,195)</b>	<b>(8,570,881)</b>	<b>617,314</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	9,343,482	9,343,482	9,343,482	-
Transfers out	-	-	(56,996)	(56,996)
<b>Total other financing sources (uses)</b>	<b>9,343,482</b>	<b>9,343,482</b>	<b>9,286,486</b>	<b>(56,996)</b>
<b>Net change in fund balance</b>	<b>170,287</b>	<b>155,287</b>	<b>715,605</b>	<b>560,318</b>
<b>Fund Balance - beginning</b>	<b>779,249</b>	<b>779,249</b>	<b>779,249</b>	<b>-</b>
Prior Period Adjustment	-	-	571	571
<b>Fund Balance - beginning (restated)</b>	<b>779,249</b>	<b>779,249</b>	<b>779,820</b>	<b>571</b>
<b>Fund Balance - ending</b>	<b>\$ 949,536</b>	<b>\$ 934,536</b>	<b>\$ 1,495,425</b>	<b>\$ 560,889</b>



City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Under Freeway Parking  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Miscellaneous	\$ 143,725	\$ 143,725	\$ 173,704	\$ 29,979
<b>Total revenues</b>	143,725	143,725	173,704	29,979
<b>EXPENDITURES</b>				
Transportation	127,891	127,891	94,792	33,099
<b>Total expenditures</b>	127,891	127,891	94,792	33,099
<b>Net change in fund balance</b>	15,834	15,834	78,912	63,078
<b>Fund Balance - beginning</b>	15,071	15,071	15,071	-
Prior Period Adjustment	-	-	-	-
<b>Fund Balance - beginning (restated)</b>	15,071	15,071	15,071	-
<b>Fund Balance - ending</b>	\$ 30,905	\$ 30,905	\$ 93,983	\$ 63,078

City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Capital Improvement Program  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ -	\$ 3	\$ 3
<b>Total revenues</b>	-	-	3	3
<b>EXPENDITURES</b>				
Transportation	-	-	32	(32)
Capital outlays	83,000	83,000	-	83,000
<b>Total expenditures</b>	83,000	83,000	32	82,968
<b>Net change in fund balance</b>	(83,000)	(83,000)	(29)	82,971
<b>Fund Balance - beginning</b>	84,054	84,054	84,054	-
Prior Period Adjustment	-	-	-	-
<b>Fund Balance - beginning (restated)</b>	84,054	84,054	84,054	-
<b>Fund Balance - ending</b>	\$ 1,054	\$ 1,054	\$ 84,025	\$ 82,971

City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Hope Acquisition  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Miscellaneous	\$ 26,400	\$ 26,400	\$ 260	\$ (26,140)
<b>Total revenues</b>	26,400	26,400	260	(26,140)
<b>EXPENDITURES</b>				
Economic environment	14,823	14,823	3,369	11,454
Capital outlays	241,577	241,577	-	241,577
<b>Total expenditures</b>	256,400	256,400	3,369	253,031
<b>Net change in fund balance</b>	(230,000)	(230,000)	(3,109)	226,891
<b>Fund Balance - beginning</b>	418,066	418,066	418,066	-
Prior Period Adjustment	-	-	579	579
<b>Fund Balance - beginning (restated)</b>	418,066	418,066	418,645	579
<b>Fund Balance - ending</b>	\$ 188,066	\$ 188,066	\$ 415,536	\$ 227,470

City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Housing Trust Grant  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 179	\$ (2,821)
<b>Total revenues</b>	3,000	3,000	179	(2,821)
<b>EXPENDITURES</b>				
Economic environment	134	134	195	(61)
Capital outlays	198,000	198,000	-	198,000
<b>Total expenditures</b>	198,134	198,134	195	197,939
<b>Net change in fund balance</b>	(195,134)	(195,134)	(16)	195,118
<b>Fund Balance - beginning</b>	221,308	221,308	221,308	-
Prior Period Adjustment	-	-	476	476
<b>Fund Balance - beginning (restated)</b>	221,308	221,308	221,784	476
<b>Fund Balance - ending</b>	\$ 26,174	\$ 26,174	\$ 221,768	\$ 195,594

**City of Spokane, Washington**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Emergency Medical Services**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 7,785,000	\$ 7,785,000	\$ 7,746,219	\$ (38,781)
Licenses and permits	296,500	296,500	368,240	71,740
Intergovernmental	1,308,920	1,308,920	1,278,463	(30,457)
Charges for services	744,000	744,000	893,809	149,809
Fines and forfeitures	132,000	132,000	248,700	116,700
Miscellaneous	69,880	69,880	109,291	39,411
<b>Total revenues</b>	<b>10,336,300</b>	<b>10,336,300</b>	<b>10,644,722</b>	<b>308,422</b>
<b>EXPENDITURES</b>				
Public safety	47,789,450	47,890,310	47,492,992	397,318
Capital outlays	126,517	45,959	76,186	(30,227)
<b>Total expenditures</b>	<b>47,915,967</b>	<b>47,936,269</b>	<b>47,569,178</b>	<b>367,091</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(37,579,667)</b>	<b>(37,599,969)</b>	<b>(36,924,456)</b>	<b>675,513</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	1,780	1,780
Transfers in	37,500,000	37,500,000	37,200,000	(300,000)
Transfers out	-	(48,150)	(48,150)	-
<b>Total other financing sources (uses)</b>	<b>37,500,000</b>	<b>37,451,850</b>	<b>37,153,630</b>	<b>(298,220)</b>
<b>Net change in fund balance</b>	<b>(79,667)</b>	<b>(148,119)</b>	<b>229,174</b>	<b>377,293</b>
<b>Fund Balance - beginning</b>	<b>2,044,662</b>	<b>2,044,662</b>	<b>2,044,662</b>	<b>-</b>
Prior Period Adjustment	-	-	1,894	1,894
<b>Fund Balance - beginning (restated)</b>	<b>2,044,662</b>	<b>2,044,662</b>	<b>2,046,556</b>	<b>1,894</b>
<b>Fund Balance - ending</b>	<b>\$ 1,964,995</b>	<b>\$ 1,896,543</b>	<b>\$ 2,275,730</b>	<b>\$ 379,187</b>

City of Spokane, Washington  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Eliminations  
For the Year Ended December 31, 2016

	Actual	Variance with Final Budget-Positive (Negative)
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in	\$ (47,296,103)	\$ (47,296,103)
Transfers out	47,296,103	47,296,103
<b>Total other financing sources (uses)</b>	-	-
<b>Net change in fund balance</b>	-	-
<b>Fund Balance - beginning</b>	-	-
Prior Period Adjustment	-	-
<b>Fund Balance - beginning (restated)</b>	-	-
<b>Fund Balance - ending</b>	\$ -	\$ -

# CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

## City of Spokane Spokane County January 1, 2016 through December 31, 2016

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the City of Spokane.

<b>Finding ref number:</b> 2016-001	<b>Finding caption:</b> The City did not have adequate internal controls in place to ensure accurate reporting of its financial statements or the Schedule of Expenditures of Federal Awards.
<b>Name, address, and telephone of auditee contact person:</b> Kim Bustos, Director of Accounting 808 West Spokane Falls Boulevard Spokane, WA 99201 (509) 625-6034	
<p><b><i>Corrective action the auditee plans to take in response to the finding:</i></b></p> <p><i>The City acknowledges and agrees with the State Auditor's assessment of the condition of its internal controls over accounting and financial statement preparation.</i></p> <p><i>We extend our appreciation to the State Auditor's Office for assisting the City in identifying deficiencies in our procedures. All misstatements noted have been corrected.</i></p> <p><i>In 2016 the City fully implemented CAFR Online software which significantly reduced human errors both in allocation calculations and those used to properly classify expenditures in the government-wide presentation. Along with the CAFR Online process, a new Government Wide Conversion Worksheet has been prepared to allow the reviewer to see the flow of expenses from one category to another when an allocation is made across functions. The City is actively taking steps on a department by department basis to ensure timely reconciliations and interim review of financial data. It is our position that this will improve the accuracy of financial reporting and disclosure at year end.</i></p> <p><i>In 2017, the City has hired a new Chief Accountant who is actively taking steps to improve year end processes and internal controls. For example, an interactive online task calendar has been</i></p>	

*deployed as a tool to manage and meet deadlines throughout the year. It is our expectation that this will expedite the year-end financial statement preparation process and provide additional time to perform a thorough internal review prior to submission.*

*The City continues to strive for excellence in financial reporting and will obtain training for key financial statement preparation positions. These positions will be trained to identify and research the implementation of new GASB Standards and GAAP principles to ensure all required elements are included in each disclosure.*

*The Transportation Benefit District was identified as a blended component unit but was reported as an Agency Fund and not actually blended with the primary government as directed by GASB 39. The City has implemented a decision matrix to help identify component units and ensure they are disclosed and properly reported along with the primary government as directed.*

*The City properly identified and disclosed an obligating event for pollution remediation. However, it was not identified that it hadn't been fully implemented in accordance with GASB 49 and a liability was not recorded. The City will provide staff with adequate training to ensure proper recording and disclosure of new GASB Standards.*

*The City had previously developed a calculation methodology to determine restricted net position. The original calculation did not take into consideration that unspent bond proceeds are already restricted in nature through their inclusion in the Liabilities section of the financial statements. This was a classification change only which had no financial impact on the statements. The calculation methodology has been updated to prevent this type of reporting error in the future.*

*The City fully implemented GASB 68 in 2015 which reports the net change in proportional share for self-administered pension plans. The information was presented showing the individual components instead of only reflecting the net result. This was a classification change only which had no financial impact on the statements. The City will present the net change in future years as prepared by the actuary.*

*The City's policy on cash and cash investments is to invest all cash not necessary for immediate needs. As these investments can be liquidated at any time, some were included as cash and cash equivalents. Pursuant to GASB 9, to qualify as cash and cash equivalents, an item must meet the following criteria: must be readily convertible to known amounts of cash **and** must mature within three months of acquisition. In order to be in compliance with GASB 9, the City re-classified these funds to equity in pooled investments thus only reporting cash on hand, or on deposit and in restricted accounts, as cash and cash equivalents.*

*The City will also evaluate the collectability of housing loans and record an allowance for uncollectible accounts each year to properly ensure the City's financial statements are prepared in accordance with GAAP.*



*The City recognizes Fund statement adjustments to the full GAAP government-wide presentation and will record property tax revenues in the year levied.*

*The City has actively taken steps to improve its processes related to federally funded loan programs reported on the SEFA. Additional measures of internal controls have been put into place including the development of master files accessible by both programmatic and accounting staff. This will help to ensure clear and regular communication of funding information by project, and assist with necessary coordination between departments to regularly assess and monitor expenditures. Additional measures have also been implemented to ensure that loan payment requests re completed in a timely manner to ensure all federal loan costs are properly recognized and reported on the SEFA appropriately.*

*Each of the items noted above along with other items discussed throughout the audit will become part of a year-end checklist in preparing the Government Wide financial statements.*

**Anticipated date to complete the corrective action:** 04/1/2018

<b>Finding ref number:</b> 2016-002	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Sally Stopher, Director of Grants, Contracts, and Purchasing 808 West Spokane Falls Boulevard Spokane, WA 99201 (509) 625-6032	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with U.S. Department of Transportation funding.</i>	
<b>Anticipated date to complete the corrective action:</b> This plan has been implemented.	

<b>Finding ref number:</b> 2016-003	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Sally Stopher, Director of Grants, Contracts, and Purchasing 808 West Spokane Falls Boulevard Spokane, WA 99201 (509)625-6032	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with Clean Water State Revolving Fund funding.</i>	
<b>Anticipated date to complete the corrective action:</b> This plan has been implemented.	

<b>Finding ref number:</b> 2016-004	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
<b>Name, address, and telephone of auditee contact person:</b> Sally Stopher, Director of Grants, Contracts, and Purchasing 808 West Spokane Falls Boulevard Spokane, WA 99201 (509) 625-6032	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City understands the importance of verifying it is not contracting with or making subawards to parties debarred or suspended from doing business with the federal government. In order to ensure the compliance requirements are met and properly documented, the City has developed the process by which required Suspension and Debarment Certification language is to be included in all contracts paid for with Drinking Water State Revolving Fund funding.</i>	
<b>Anticipated date to complete the corrective action:</b> This plan has been implemented.	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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