



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### City of Spokane Valley

Spokane County

For the period January 1, 2015 through December 31, 2015

Published September 26, 2016

Report No. 1017536





## Washington State Auditor's Office

September 26, 2016

Mayor and City Council  
City of Spokane Valley  
Spokane Valley, Washington

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

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Spokane Valley**  
**Spokane County**  
**January 1, 2015 through December 31, 2015**

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

The results of our audit of the City of Spokane Valley 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 no deficiencies that we consider to be material weaknesses.

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

#### Federal Awards

##### Internal Control over Major Programs:

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

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

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

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

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

None reported.

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

None reported.

**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 Valley  
Spokane County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Spokane Valley  
Spokane Valley, 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 Valley, Spokane County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 14, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

## **COMPLIANCE AND OTHER MATTERS**

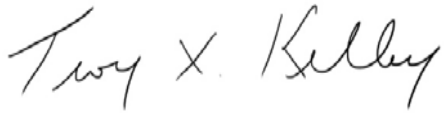
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 14, 2016



**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 Valley  
Spokane County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Spokane Valley  
Spokane Valley, Washington

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

We have audited the compliance of the City of Spokane Valley, 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, 2015. 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, 2015.

### **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.

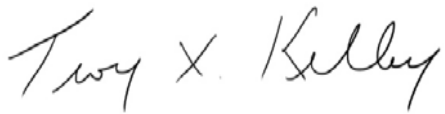
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 14, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Spokane Valley Spokane County January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Spokane Valley  
Spokane Valley, 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 Valley, Spokane County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

### **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 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, as of December 31, 2015, 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 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 17 through 28, budgetary comparison information on pages 73 through 74, and pension plan information on pages 75 through 76 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.

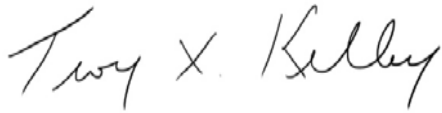
### ***Supplementary and Other Information***

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016 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.

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TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 14, 2016

## **FINANCIAL SECTION**

**City of Spokane Valley  
Spokane County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to actual – General Fund – 2015

Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget to actual – Street Fund – 2015

Schedule of Proportionate Share of Net Pension Liability – 2015

Schedule of Employer Contributions – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015



# **CITY OF SPOKANE VALLEY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Year Ended December 31, 2015**

As management of the City of Spokane Valley, Washington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in thousands of dollars. Also, this discussion contains comparative analysis based on information from the prior year.

### **FINANCIAL HIGHLIGHTS**

The key financial highlights for 2015 are as follows:

The City of Spokane Valley's financial position improved. At the end of the current fiscal year, assets exceeded liabilities by \$144,819 thousand (*net position*). Of this amount, \$47,613 thousand represents the primary government's unrestricted net position, which may be used and is available to meet the City's ongoing activities and obligations to the citizens and creditors.

The City of Spokane Valley's total net position from Governmental and Business-type activities increased \$7,640 thousand or 5.6% from the prior fiscal year, primarily explained by a reduction in net position due to recognition of the change in accounting principle (GASB 68) and revenues continuing to outpace expenditures and the current year's increase in the City's Net Investment in capital assets.

At the close of the current fiscal year, the City of Spokane Valley's governmental funds reported combined fund balances of \$51,681 thousand, an increase of \$2,019 thousand in comparison with the prior year. Approximately 61.2% of this amount or \$31,652 thousand (*unassigned fund balance*) is available for spending at the City's discretion.

Also, at the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned, and unassigned* components of *fund balance*) for the general fund was \$31,652 thousand, or approximately 92.7% of the total general fund expenditures, and the net change in actual fund balance increased by \$1,480 thousand during the current fiscal year.

Total Long-term liabilities for Governmental type activities increased by \$4,666 thousand to \$12,374 thousand during the current fiscal year; primarily due to a change in accounting principle, which affect the way that pension liabilities are presented.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions. The following discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The following figure summarizes the major features of the financial statements. This overview section below also describes the structure and contents of each of the statements in more detail.

	<b>Government-wide Statement</b>	<b>Fund Financial Statements</b>	
		<b>Governmental</b>	<b>Proprietary</b>
<b>Scope</b>	Entire entity (except fiduciary funds)	The day to day operating activities of the City for basic governmental services	The day to day operating activities of the City for business-type enterprises
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
<b>Type of asset and liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
<b>Type of inflow and outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues when cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Spokane Valley's finances, in a manner similar to a private-sector business.

#### ***Statement of Net Position and Statement of Activities***

The *statement of net position* presents financial information on all of the City's assets, liabilities, and *deferred inflows/outflows of resources*, with the difference between the two 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 is improving or deteriorating. The *statement of activities* presents information showing how the City's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement distinguishes revenue generated by specific functions, from revenue provided by taxes and other sources not related to a specific function. Revenue generated by specific functions (charges for services, fines and forfeitures, grants and other contributions) is compared to the expenses for those functions to demonstrate how much each function either supports itself or relies on taxes and other general funding sources for support.

The change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished in capacity. However, in evaluating the overall position of the City, nonfinancial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated. *These government-wide financial statements can be found in the Basic section of this annual financial report.*

In the statement of net position and the statement of activities, The City of Spokane Valley is divided into two distinct functions or types of *primary government*:

- ◆ **Governmental-type Activities** – Most of the City’s programs and services are reported here, including general government, public safety, physical environment, transportation, economic environment, community development, and culture & recreation. These services are funded and supported primarily by taxes and intergovernmental revenues, including federal and state grants, and other shared revenues.
- ◆ **Business-type Activities** – These services are provided on a charge for goods or user fee services basis to recover all or a significant portion of the cost of services provided; including State Grants. The City’s Stormwater Utility Management Fund and Aquifer Protection Area Fund activity is reported here.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives, and a fiscal accounting entity with a self-balancing set of accounts used to account for specific activities. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into two categories: governmental fund types, and proprietary fund types. Fund financial statements provide detailed information about the City’s major funds. Based on the restriction of the use of resources and money, the City has established many funds that account for the multitude of services provided to our residents.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as *governmental activities* on the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing the City’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eighteen individual governmental funds. Information on the City’s four major governmental funds; General Fund, Street Fund, Street Capital Projects Fund and City Hall Construction Fund are presented separately in the governmental fund balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. *Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. These basic governmental fund financial statements can be found in the Basic section of this report.*

**Proprietary Funds** – The City of Spokane Valley maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Enterprise funds are used to account for goods and services provided to the citizens on a user fee basis. The City provides information on its two enterprise funds, the Stormwater Utility Management Fund and the Aquifer Protection Area Fund, both major funds, under Proprietary Funds.

The City's two *Internal Service Funds*; Equipment Rental and Replacement and Risk Management accounts for the accumulated and allocated internal costs of fleet vehicles, computer equipment, and insurance claims. Also, both provide internally for the goods and services among the City's various departments and functions. Because both of these services predominantly benefit governmental-type functions rather than business-type functions in nature, they have been included within *governmental-type activities* in the government-wide financial statements.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules for other governmental and internal service funds. This information can be found in the supplemental section of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

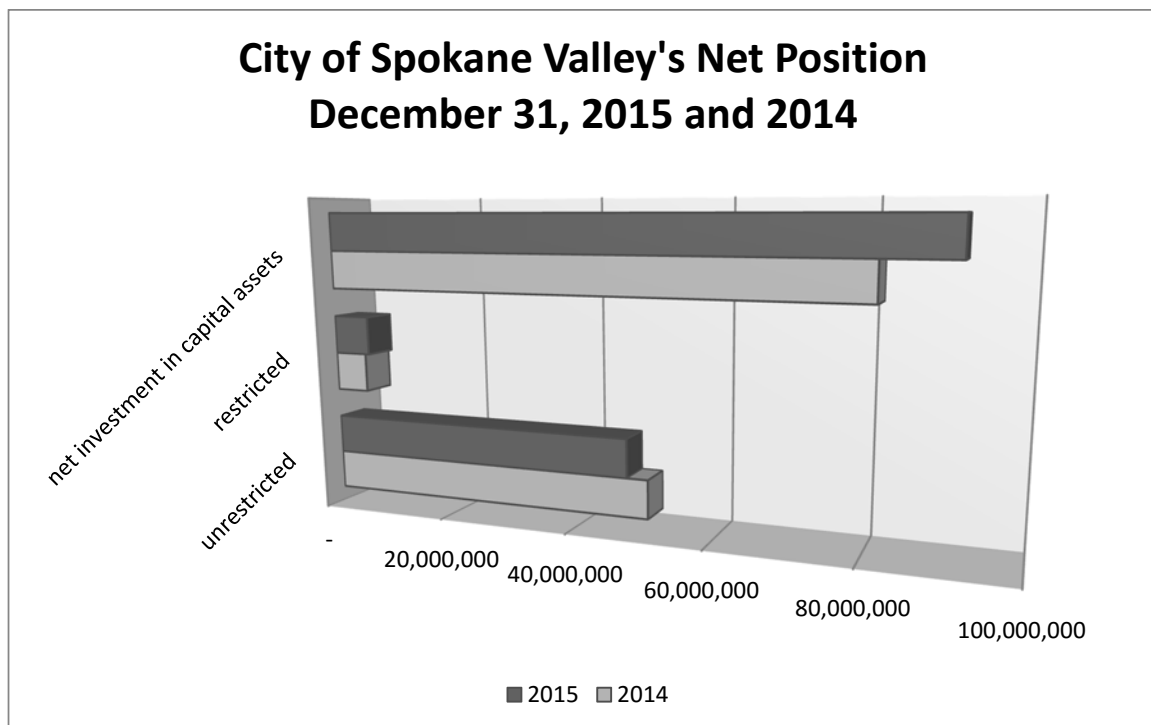
**Statement of net position** – As noted earlier, net position over time, may serve as a useful indicator of the City of Spokane Valley's financial position. The City's total assets exceeded total liabilities by \$144,819 thousand as of December 31, 2015. The following table summarizes and compares the City's net position for 2015 and 2014 (*see Table 1, below*):

City of Spokane Valley's Net Position (amounts in thousands)						
<b>Table 1</b>	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 69,167	\$ 65,359	\$ 3,114	\$ 3,096	\$ 72,281	\$ 68,455
Capital assets (net of depreciation)	92,167	83,212	6,275	5,382	98,442	88,594
<b>Total assets</b>	<b>161,334</b>	<b>148,571</b>	<b>9,389</b>	<b>8,478</b>	<b>170,723</b>	<b>157,049</b>
<b>Total deferred outflows of resources</b>	<b>611</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>642</b>	<b>-</b>
Long-term liabilities	12,374	7,708	249	-	12,623	7,708
Other liabilities	12,823	11,002	295	1,161	13,118	12,163
<b>Total liabilities</b>	<b>25,197</b>	<b>18,710</b>	<b>544</b>	<b>1,161</b>	<b>25,741</b>	<b>19,871</b>
<b>Total deferred inflows of resources</b>	<b>766</b>	<b>-</b>	<b>39</b>	<b>-</b>	<b>805</b>	<b>-</b>
Net position:						
Net investment in capital,						
assets	85,200	75,907	6,275	5,382	91,475	81,289
Restricted	5,731	5,128	-	-	5,731	5,128
Unrestricted	45,051	48,827	2,562	1,935	47,613	50,762
<b>Total net position</b>	<b>\$ 135,982</b>	<b>\$ 129,862</b>	<b>\$ 8,837</b>	<b>\$ 7,317</b>	<b>\$ 144,819</b>	<b>\$ 137,179</b>

In this case, the Primary Governments assets exceeded liabilities by \$144,819 thousand (\$135,982 thousand in governmental activities and \$8,837 thousand in business activities) as of December 31, 2015. By far, the largest portion of the City's net position (\$91,475 thousand or 63.2%), reflects its investment in capital assets ( e.g., land and improvements, buildings and building improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure), less any

related outstanding debt that was used to acquire those assets. The City of Spokane Valley uses these capital assets to provide a variety of services to its citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The majority of these capital assets were donated by Spokane County at the time of incorporation in 2003. An additional portion (3.96%) of the City of Spokane Valley's net position represents restricted resources that are subject to external restrictions on how they may be used. The remaining balance of \$47,613 thousand or 32.9% is unrestricted and may be used to meet the city's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.



As highlighted earlier, the City of Spokane Valley's total net position increased by \$7,640 thousand or 5.6% from the prior year. This is primarily explained by revenues outpacing expenditures. More discussion will follow for the overall increase in net position in the sections for governmental-type and business-type activities.

**Governmental-type Activities** – During the current fiscal year total net position for governmental activities increased by \$6,120 thousand from the prior year, which includes an increase of \$11,376 thousand from activities and a decrease of \$5,255 thousand from the change in accounting principles related to GASB 68, for an ending balance of \$135,982 thousand. The increase in the overall net position of governmental activities is the result of management taking various steps (e.g., increasing rates for certain revenue sources like charges for services, delaying certain nonrecurring expenses, and reducing expenses related to non-essential ongoing programs in the utilities & physical environment and community development functions) to achieve such positive effects on the governmental activities ending net position. The City's capital grants and operating grants and contribution revenues from

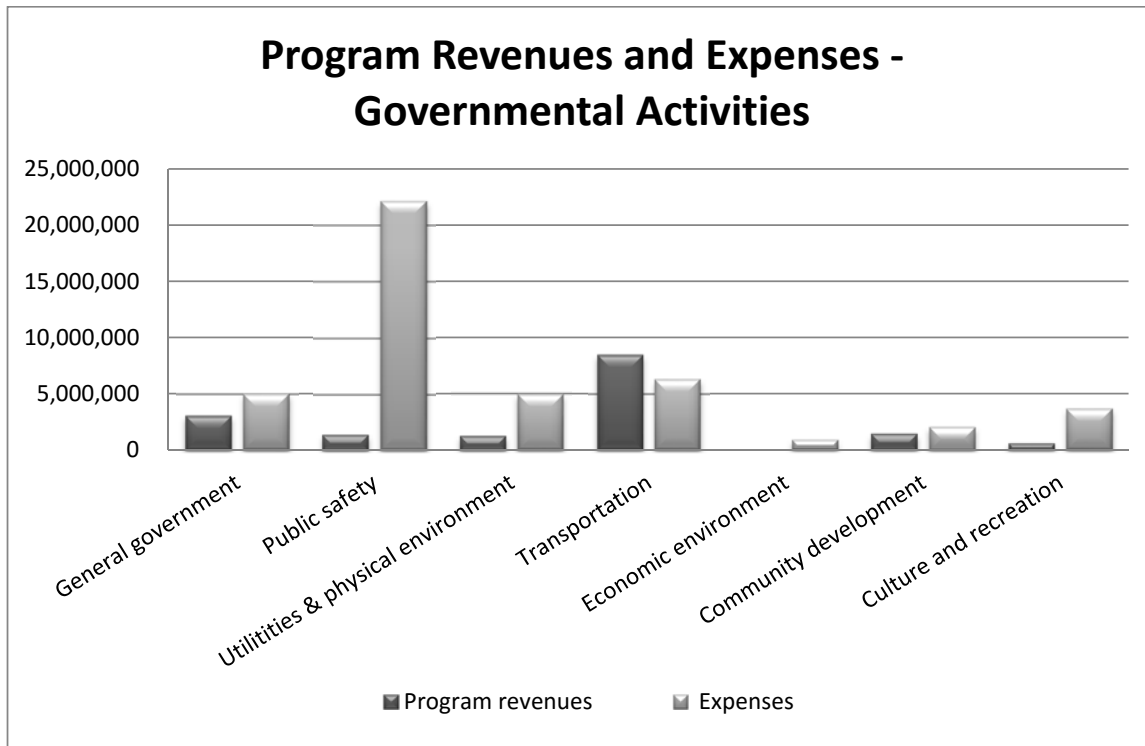
Federal and State sources made up the fourth largest sources of program revenue combined, \$9,982 thousand or 17.7% of total governmental activities revenues. The major recipients of intergovernmental program revenues were, Transportation, Utilities and Physical Environment and General Government functions of the primary government. Property tax general revenues in the governmental funds account for \$11,274 thousand of the \$56,378 thousand total revenues (less transfers) for governmental-type activities, or 20.0% of total revenues, and the property tax general revenues increased by \$232 thousand. Sales Tax general revenue accounted for approximately \$20,728 thousand or 36.8% of total revenues in year 2015, the largest single source of revenue for the City of Spokane Valley. Excise and other taxes received were Real Estate Excise Taxes of \$2,132 thousand, Liquor Board Excise Tax of \$304 thousand, Utility Phone Tax of \$2,257 thousand, Leasehold Excise Taxes of \$7 thousand, Gambling Taxes of \$413 thousand, Hotel/Motel Taxes of \$789 thousand and Motor Fuel Excise Taxes of \$1,955 thousand.

The Transportation function accounted for \$6,294 thousand of the \$45,016 thousand in total expenses for governmental activities, or 13.98% of the total in expenses. The largest function was Public Safety, accounting for \$22,144 thousand and representing 49.2% of total governmental expenses and an decrease of (0.2%) in contracted Law Enforcement services compared to the prior year (*see table 2, below*).

**City of Spokane Valley's Changes in Net Position**  
as of December 31, 2015 and 2014 (amounts in thousands)

**Table 2**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>% Change</b>
	2015	2014	2015	2014	2015	2014	2015-2014
<b>Revenues</b>							
Program revenues							
Charges for services	\$ 6,439	\$ 8,009	\$ 1,861	\$ 1,867	\$ 8,300	\$ 9,876	-16.0%
Operating grants & contributions	495	707	584	476	1,079	1,183	-8.8%
Capital grants & contributions	9,487	3,257	1,410	814	10,897	4,071	167.7%
General revenues							
Taxes	39,858	37,897	-	-	39,858	37,897	5.2%
Other	99	57	2	1	101	58	74.1%
<b>Total revenues</b>	<b>56,378</b>	<b>49,927</b>	<b>3,857</b>	<b>3,158</b>	<b>60,235</b>	<b>53,085</b>	<b>13.5%</b>
<b>Expenses</b>							
General government	4,771	5,004	-	-	4,771	5,004	-4.7%
Public safety	22,143	22,190	-	-	22,143	22,190	-0.2%
Utilities & physical environment	4,942	2,462	-	-	4,942	2,462	100.7%
Transportation	6,294	8,779	-	-	6,294	8,779	-28.3%
Economic environment	882	912	-	-	882	912	-3.3%
Community development	2,071	1,848	-	-	2,071	1,848	12.1%
Culture and recreation	3,674	5,234	-	-	3,674	5,234	-29.8%
Interest on long term debt	239	243	-	-	239	243	-1.6%
Aquifer protection area	-	-	125	982	125	982	-87.3%
Stormwater management	-	-	1,935	1,649	1,935	1,649	17.3%
<b>Total expenses</b>	<b>45,016</b>	<b>46,672</b>	<b>2,060</b>	<b>2,631</b>	<b>47,076</b>	<b>49,303</b>	<b>-4.5%</b>
Increase (decrease) in net position before transfers	11,362	3,255	1,797	527	13,159	3,782	247.9%
Transfers In (out)	13	39	(13)	(39)	-	-	0.0%
Increase (decrease) in net position	11,375	3,294	1,784	488	13,159	3,782	247.9%
<b>Net position - beginning</b>	<b>129,862</b>	<b>126,568</b>	<b>7,317</b>	<b>6,829</b>	<b>137,179</b>	<b>133,397</b>	
<b>Change in Accounting Principle</b>	<b>(5,255)</b>	<b>-</b>	<b>(264)</b>	<b>-</b>	<b>(5,519)</b>	<b>-</b>	
<b>Net position - ending</b>	<b>\$ 135,982</b>	<b>\$ 129,862</b>	<b>\$ 8,837</b>	<b>\$ 7,317</b>	<b>\$ 144,819</b>	<b>\$ 137,179</b>	



Transportation activity capital grants increased in the current year by \$4,718 thousand primarily due to the Sullivan Bridge construction project; these contributions are used to fund the on-going general government capital outlays of \$15,048 thousand, or 27.8% of the total for governmental funds expenditure activity (*see the preceding graph*).

**Business-type Activities** – For the City of Spokane Valley’s business-type activities, the results for the current fiscal year were positive in that the overall net position increased to reach an ending balance of \$8,837 thousand. The increase (or change) in net position for business-type activities (stormwater and aquifer protection funds) was \$1,520 thousand from the prior fiscal year, including \$1,783 thousand from activities and \$264 thousand from a change in accounting principle due to GASB 68. This is an increase in net position of 20.8% from the prior fiscal year. Additional revenues collected by Spokane County from aquifer protection fees and Stormwater utility fees assessed to the citizens and remitted to the City of Spokane Valley resulted in an increase in operating intergovernmental revenues of \$108 thousand for the current fiscal year. In both business-type funds, the major program revenue sources were *charges for services* of \$1,861 thousand and *intergovernmental revenues* of \$1,994 thousand. The primary source of revenues is a Stormwater management fee imposed upon real property and the Aquifer area protection fee mandated by the voting public.

#### **FINANCIAL ANALYSIS OF THE CITY OF SPOKANE VALLEY’S FUNDS**

As noted earlier, the City of Spokane Valley uses fund accounting to ensure and demonstrate compliance with finance related requirements.

**Governmental Funds** - The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unassigned fund balance may serve as a useful



measure of the City's net resources available for spending at the end of the year and represent the portion of fund balance which has not been limited to use for a particular purpose by either an external party, the City of Spokane Valley itself, or from a group or individual that has delegated authority to assign these resources to be used for particular purposes by the City of Spokane Valley's Council. As of December 31, 2015, the City's total governmental funds reported a combined ending fund balance of \$51,681 thousand, a net increase of \$2,019 thousand in comparison with the prior year. Approximately 61.2% of this amount or \$31,652 thousand is composed of *unassigned fund balance*, which is available for spending at the City's discretion. The City's remainder or residual fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not spendable in form (\$150 thousand), 2) restricted for particular purposes (\$5,581 thousand), 3) committed for particular purposes (\$444 thousand), or 4) assigned for particular purposes (\$13,854 thousand) *See table 4, below.*

The General Fund is the **primary operating governmental fund** of the City of Spokane Valley where most receipts and payments of ordinary city operations are processed. *See table 3, below.*

General Fund Components of Fund Balance			
December 31, 2015 & 2014 (amounts in thousands)			
Table 3	Fiscal Year		
	2015	2014	
Unassigned	\$ 31,652	\$ 29,974	
Assigned	-	-	
Restricted	24	255	
Nonspendable	131	98	
<b>Total fund balances</b>	<b>\$ 31,807</b>	<b>\$ 30,327</b>	

Sales and property taxes are the major revenue sources. At the end of 2015, unassigned fund balance was \$31,651 thousand, while total fund balance increased to \$31,807 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total governmental funds expenditures. Unassigned fund balance in the general fund represents approximately 58.5% of the total governmental funds expenditures, while total general fund balance of \$31,807 thousand represents approximately 58.8% of that same amount in total governmental funds expenditures *See table 3.*

All Remaining Governmental Funds Components of Fund Balance			
December 31, 2015 & 2014 (amounts in thousands)			
Table 4	Fiscal Year		
	2015	2014	
Assigned	\$ 13,854	\$ 14,056	
Committed	444	504	
Restricted	5,557	4,774	
Nonspendable	19	1	
<b>Total fund balances</b>	<b>\$ 19,874</b>	<b>\$ 19,335</b>	

### Major Governmental Funds

**The General Fund** – The fund balance of the City of Spokane Valley's general fund increased by \$1,480 thousand, compared to last year, for the fiscal year ending December 31, 2015. In the Budget to Actual Schedule, revenues trended slightly higher than expected in the 2015 budget by \$1,092 thousand, while the total expenditures were \$3,346 thousand (including transfers out) less than the amended budget. Ultimately, the General Fund in the Governmental funds statement reports an



increase in excess of revenues over expenditures, positive variance with final budget over of \$4,439 thousand compared to the last fiscal year of 2014 of \$3,676 thousand.

**The Street Fund** – had an ending actual fund balance of \$1,443 thousand, a net change in fund balance of \$(262) thousand compared to the prior year. The primary source of revenues for the Street fund is the Telephone Utility taxes of \$2,257 thousand, and the Motor Vehicle Gas tax of \$1,936 thousand. The change from the prior year was approximately -8.3% for Telephone Utility taxes and 3.0% for Motor Vehicle Gas tax. Expenditures (including transfers out) outpaced revenues, which contributed to the slight decrease in ending fund balance compared to last year.

**Street Capital Projects Fund** – had an ending fund balance of \$76 thousand. Actual expenditures (including transfers out) were \$3 thousand less than the final budgeted projections. Overall, the net change in fund balance was greater than the final budgeted projections.

**City Hall Construction Fund** – had an ending fund balance of \$4,789 thousand. Actual expenditures were \$329 thousand less than final budget projections. The net change in fund balance was \$329 thousand less than budgeted.

**Proprietary Funds** - The City's enterprise funds, **Stormwater Management** and **Aquifer Protection Area** provide the same type of information found in the government-wide financial statements, and are also *major proprietary funds*. Unrestricted net position of the Stormwater Management Fund at December 31, 2015, was \$1,640 thousand and for the Aquifer Area Protection fund was \$922 thousand.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

*Original budget compared to final budget:* By State law, Title 35A of the Revised Code of Washington (RCW) requires all cities to prepare and adopt a balanced budget prior to the beginning of the City's fiscal year; the annual operating budget for the City is effective the first day of January. The City Council amended the original budget revenue and expenditures once during 2015.

*Final budget compared to actual results:* The most significant differences between final estimated revenues and actual revenues were as follows:

<b>Revenue Source</b>	<b>Final Estimated Revenues</b>	<b>Actual Revenues</b>	<b>Difference</b>
Taxes	\$ 31,640,900	\$ 32,281,429	\$ 640,529
Licenses and permits	2,110,700	2,260,035	149,335
Intergovernmental revenues	1,816,400	2,089,795	273,395
Charges for services	1,158,800	1,313,700	154,900
Fines & forfeitures	609,400	530,393	(79,007)
Investment Interest	70,000	81,969	11,969
Miscellaneous	771,700	712,514	(59,186)

In the General Fund, the variance between actual expenditures and the final amended budget was a savings in expenditures of \$3,347 thousand; giving the City a positive variance in excess of revenues over expenditures of \$4,439 thousand for 2015. Actual negative revenue variances in miscellaneous revenues of (\$59) thousand and (\$79) thousand in fines and forfeitures coupled with revenue increases in tax revenue of \$640 thousand, licenses and permits of \$149 thousand, intergovernmental revenues of \$273 thousand charges for goods and services of \$155 thousand and investment interest of \$12

thousand paired with a positive variance in revenues over expenditures contributed overall to an increase in fund balance of \$1,480 thousand for the fiscal year of 2015.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets:** The City of Spokane Valley's investment in capital assets for its governmental and business type activities as of December 31, 2015, amounts to \$98,442 thousand (net of depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and construction in progress. The total increase in the city's investments in capital assets for the current fiscal year was \$9,848 thousand or 11.1% (*see table 5, following*).

<i>Table 5:</i>	City of Spokane Valley's Capital Assets (net of depreciation, amounts in thousands)						
	Governmental Activities		Business-type Activities		Total		Total % Change
	2015	2014	2015	2014	2015	2014	2015-2014
Land	\$ 8,079	\$ 6,892	\$ -	\$ -	\$ 8,079	\$ 6,892	17.2%
Buildings	9,098	9,420	323	336	9,421	9,756	-3.4%
Improvements other than Buildings	7,166	5,325	-	-	7,166	5,325	34.6%
Infrastructure	56,809	54,892	5,842	4,908	62,651	59,800	4.8%
Machinery and Equipment	589	507	27	36	616	543	13.4%
Construction in Progress	10,426	6,176	83	102	10,509	6,278	67.4%
<b>Total</b>	<b>\$ 92,167</b>	<b>\$ 83,212</b>	<b>\$ 6,275</b>	<b>\$ 5,382</b>	<b>\$ 98,442</b>	<b>\$ 88,594</b>	<b>11.1%</b>

**Major capital asset events during the current fiscal year included the following:**

- Construction in Progress increased by 67.4% or \$4,231 thousand due to several major street and infrastructure projects being started in 2015.
- There was a total of \$73 thousand or an increase of 13.4% in Machinery and Equipment for fiscal year 2015 due to the purchase of various pieces of equipment.
- Improvements other than Buildings increased \$1,841 thousand or 34.6% due to the completion of several Parks Department projects
- Infrastructure increased 4.8% or \$2,851 thousand for 2015 due mostly to the completion of several street preservation projects.
- Overall change in capital assets for 2015 increased by 11.1% compared to the prior year of 2014.

Additional information on the City's capital assets can be found in Note 5 (Capital Assets) to the financial statements.

**Long-Term Liabilities** – At December 31, 2015, the City had total Limited Tax General Obligation debt outstanding of \$6,375 thousand. This amount is backed by the full faith and credit of the City of Spokane Valley with debt service funded by general government revenues and contributions from the Public Facilities District. The City's long-term liabilities increased by \$4,911 thousand or 63.5% during fiscal year 2015, due to a change in accounting principle with **GASB 68**. (*See table 6, below*).

Table 6

**City of Spokane Valley's Outstanding Debt**  
(amounts in thousands)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2015-2014
General obligation bonds	\$ 6,375	\$ 6,675	\$ -	\$ -	\$ 6,375	\$ 6,675	-4.5%
Bond premium	591	631	-	-	591	631	-6.3%
Compensated absences	439	402	23	27	462	429	7.7%
Net pension plan liabilities (GASB 68)	4,969	-	249	-	5,218	0	100.0%
<b>Total</b>	<b>\$ 12,374</b>	<b>\$ 7,708</b>	<b>\$ 272</b>	<b>\$ 27</b>	<b>\$ 12,646</b>	<b>\$ 7,735</b>	<b>63.5%</b>

In addition to the General obligation bonded debt and premium, the City's long-term liabilities also include compensated absences (vacation and sick leave accruals) and net pension liabilities. Additional information on the City's long-term debt can be found in **Note 9 (Long-Term Obligations and Leases)** in the notes to the financial statements.

Under Washington State statutes, general obligation indebtedness for general purposes is pursuant to a vote of the electorate and is limited to 2.5% of actual value of taxable property located within the City of Spokane Valley. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and the combination of voted and non-voted general purpose indebtedness, cannot exceed 2.5% of assessed valuation.

The 2014 assessed valuation of the City of Spokane Valley for the levy year of 2015, for purposes of determining the legal debt margin is; \$7,393,971,582. Remaining debt capacities for the City under general voted and non-voted purposes (2.5%) is limited to: \$178,474,290.

The City of Spokane Valley maintains an Aa3 rating from Moody's for its non-voted general obligation debt. Additional information regarding debt limitations and capacities can be found in **Note 9 (Legal Debt Margin)** in the notes to the financial statements.

### **ECONOMIC FACTORS**

The following economic factors currently affect the City of Spokane Valley and were considered in developing the 2015-2016 fiscal year budgets.

The outlook for the City of Spokane Valley economy was projected based on statistics generated in Spokane County. There is estimated to be over 4,000 businesses located in Spokane Valley with estimated taxable retail sales of \$2.1 billion for 2015. The City of Spokane Valley received \$18,209 thousand, an increase of \$769 thousand from the prior year, in general sales tax dollars for 2015.

Overall, Spokane County gained about 4,400 jobs in 2015. The current year's increase in jobs left the county with an estimated average of 213,340 jobs for the year, which is down more than 11,600 jobs from the peak in 2008 of 224,950. The modest job gains of 2015 succeeded in bringing the Spokane County area wide unemployment rate to 6.4%, down -.8% from the previous year. Spokane County's fastest growing non-farm employment sector is construction, followed closely by education and health services. These sectors are predicted to grow the most through 2018. Population growth has been steady within the City of Spokane Valley, increasing to 93,340 and growing 4% since 2010.

The total number of Single family residential building permits in the Spokane County area-wide region (including the City of Spokane and the City of Spokane Valley) decreased to 1125 in 2015, while total permits issued in 2015 increased 828 compared to 2014. Additionally, total 2015 nonresidential building permits for the City of Spokane Valley jumped to 545 permits, an increase of 312 from the prior year.

Housing prices and sales increased for the fourth straight year in the Spokane area for 2015. The median price of a home in the Spokane metropolitan area was approximately \$191,100 in 2015, which is roughly \$(32,100) lower than the U.S. median price of \$223,200. The 2015 average reported price of a home in the area was \$197,630, up 6% from 2014. The City of Spokane Valley's assessed value increased 3.1% to 7.4 billion in 2015. The City's property tax levy rate for 2015 was near \$1.564 per thousand of assessed value.

The City of Spokane Valley contracts with Spokane County and several public service districts for many city services including street maintenance, public safety, library, and fire protection. This allows the City to hold the number of full-time employees to 87.25. Employee salaries and related benefits are the leading cost for much of the city's operations. In a 2015 study, a comparison of 31 cities with a populations of 100,000 or less was conducted within the State of Washington and the City of Spokane Valley had the fewest number of employees based on Washington cities with a population greater than 50,000 and over.

No significant general fund tax increases were implemented in 2015, nor are any anticipated for the 2016 general fund budget. A telephone utility tax of 6% continues to be collected during 2015 in the City's Street Fund.

During the fiscal year of 2015, unassigned fund balance in the general fund was \$31,652 thousand. The City of Spokane Valley's total recurring 2016 general fund expenditure budget is \$39,361 thousand as compared to \$38,292 thousand in 2015. This means that the general fund recurring expenditure budget only increased by 2.79% as compared to 2015. The 2016 budget presumes service levels that are consistent with those provided in 2015 with neither significant enhancements nor reductions in any area of operations.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Spokane Valley's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Spokane Valley  
Finance Department  
Chelsie Taylor, Finance Director  
11707 E. Sprague Ave.  
Suite 106  
Spokane Valley, Washington 99206.

**City of Spokane Valley, Washington**  
**Statement of Net Position**  
**December 31, 2015**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 50,252,724	\$ 3,048,166	\$ 53,300,890
Taxes receivable	4,992,269	65,129	5,057,398
Taxes delinquent-receivable	135,002	-	135,002
Accounts receivable, (net)	2,005,166	-	2,005,166
Interest receivable	13,840	437	14,277
Grants receivable	2,342,299	-	2,342,299
Due from other funds	9,276,000	-	9,276,000
Prepays	150,067	30	150,097
Capital Assets:			
Land	8,078,868	-	8,078,868
Depreciable assets, (net)	73,661,883	6,191,911	79,853,794
Construction in progress	10,426,093	83,158	10,509,251
<b>Total Assets</b>	<b>\$ 161,334,211</b>	<b>\$ 9,388,831</b>	<b>\$ 170,723,042</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<i>Pension plans contributions</i>	611,013	30,640	641,653
<b>Total deferred outflows of resources</b>	<b>611,013</b>	<b>30,640</b>	<b>641,653</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 2,218,894	\$ 107,528	\$ 2,326,422
Interest payable	29,819	-	29,819
Due to other funds	9,276,000	-	9,276,000
Deposits and other payables	754,687	78,094	832,781
Other accrued liabilities	543,015	25,631	568,646
Compensated absences	-	22,830	22,830
Unearned revenues	-	61,095	61,095
Long-term liabilities:			
Due within one year	390,763	-	390,763
Due in more than one year	7,014,450	-	7,014,450
Net pension plan liabilities 2015	4,968,934	249,169	5,218,103
<b>Total Liabilities</b>	<b>25,196,562</b>	<b>544,347</b>	<b>25,740,909</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
<i>Diff. between expected &amp; actual pension plan earnings</i>	766,203	38,421	804,624
<b>Total deferred inflows of resources</b>	<b>766,203</b>	<b>38,421</b>	<b>804,624</b>
<b>NET POSITION</b>			
Net Investment in capital assets	85,200,394	6,275,069	91,475,463
Restricted for:			
Capital projects, REET, roads & streets	4,822,247	-	4,822,247
Parks & recreation programs	4,321	-	4,321
Hotel/motel tourism facilities	182,347	-	182,347
Hotel/motel tourism promotion	208,702	-	208,702
Comcast PEG, communications	301,182	-	301,182
Law enforcement grants	19,737	-	19,737
Debt service LTGO refunding bonds 2014	4,049	-	4,049
Trails & paths	38,054	-	38,054
Prepaid expenses	150,067	-	150,067
Unrestricted	45,051,359	2,561,634	47,612,993
<b>Total Net Position:</b>	<b>135,982,459</b>	<b>8,836,703</b>	<b>144,819,162</b>

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

City of Spokane Valley, Washington  
Statement of Activities  
For the Year Ended December 31, 2015

					Net (Expense) Revenue and Changes in Net Position		
Program Revenues							
Operating							
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 4,770,522	\$ 2,658,746	\$ 425,606	\$ -	\$ (1,686,170)	\$ -	\$ (1,686,170)
Public safety	22,143,626	1,388,014	49,418	-	(20,706,194)	-	(20,706,194)
Utilities and physical environment	4,941,674	230,057	6,607	1,080,593	(3,624,417)	-	(3,624,417)
Transportation	6,294,097	25,167	11,331	8,404,907	2,147,308	-	2,147,308
Economic environment	882,523	-	-	-	(882,523)	-	(882,523)
Community development	2,070,699	1,479,950	-	-	(590,749)	-	(590,749)
Culture and recreation	3,674,177	657,473	1,683	1,560	(3,013,461)	-	(3,013,461)
Interest on long-term debt	238,525	-	-	-	(238,525)	-	(238,525)
Total governmental activities	45,015,843	6,439,407	494,645	9,487,060	(28,594,731)	-	(28,594,731)
Business-type activities:							
Aquifer protection area	125,599	-	533,593	1,036,603	-	1,444,597	1,444,597
Stormwater management	1,934,972	1,861,368	50,000	373,332	-	349,728	349,728
Total business-type activities	2,060,571	1,861,368	583,593	1,409,935	-	1,794,325	1,794,325
Total primary government	\$ 47,076,414	\$ 8,300,775	\$ 1,078,238	\$ 10,896,995	(28,594,731)	1,794,325	(26,800,406)
General revenues:							
Taxes:							
Property taxes					11,274,203	-	11,274,203
Sales and use taxes					20,727,975	-	20,727,975
Excise taxes					4,397,092	-	4,397,092
Other taxes					3,458,483	-	3,458,483
Interest and investment earnings					99,118	2,455	101,573
Transfers					13,400	(13,400)	-
Total general revenues and transfers					39,970,271	(10,945)	39,959,326
Change in net position					11,375,540	1,783,380	13,158,920
Net position--beginning of year					129,862,182	7,316,850	137,179,032
Changes in Accounting Principles - GASB68					(5,255,263)	(263,527)	(5,518,790)
Net position--ending					\$ 135,982,459	\$ 8,836,703	\$ 144,819,162

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

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Balance Sheet**

**Governmental Funds**

December 31, 2015

	General Fund	Street Fund	Street Capital Projects Fund	Sub-Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 37,651,485	\$ 1,608,370	\$ 60,681	\$ 39,320,536
Taxes receivable	4,347,948	499,447	-	4,847,395
Accounts receivable, (net)	1,867,173	35,654	51,213	1,954,040
Interest receivable	10,987	447	7	11,441
Due from other funds	-	-	-	-
Grants receivable	19,737	-	2,301,140	2,320,877
Prepays	131,314	18,753	-	150,067
<b>Total Assets</b>	<b>\$ 44,028,644</b>	<b>\$ 2,162,671</b>	<b>\$ 2,413,041</b>	<b>\$ 48,604,356</b>
<b>Liabilities</b>				
Liabilities:				
Accounts payable	1,106,501	427,554	467,449	2,001,504
Accrued wages and benefits payable	428,829	72,283	25,050	526,162
Due to other funds	7,500,000	-	1,400,000	8,900,000
Deposits and other payables	521,943	-	-	521,943
Retainage payable	34,099	56,476	54,530	145,105
Unearned revenues	2,630,039	163,281	390,474	3,183,794
<b>Total Liabilities</b>	<b>12,221,411</b>	<b>719,594</b>	<b>2,337,503</b>	<b>15,278,508</b>
<b>Fund Balances:</b>				
Nonspendable:				
Prepaid expenses	\$ 131,314	\$ 18,753	\$ -	\$ 150,067
Restricted for:				
Comcast PEG contributions	-	-	-	-
Parks & recreation grants	4,321	-	-	4,321
Law enforcement JAG & ARRA grants	19,737	-	-	19,737
Hotel/motel tourism facilities	-	-	-	-
Hotel/motel tourism promotion	-	-	-	-
Motor vehicle fuel tax roads & streets	-	1,424,324	-	1,424,324
Debt service LTGO refunding bonds 2014	-	-	-	-
Street capital construction & grants	-	-	75,538	75,538
Trails & paths	-	-	-	-
Capital projects REET 1&2 roads & streets	-	-	-	-
Committed to:				
Winter weather operations	-	-	-	-
Assigned to:				
Civic bldg capital replacement	-	-	-	-
Governmental type capital projects	-	-	-	-
Civic facilities capital replacement	-	-	-	-
Parks & recreation capital improvements	-	-	-	-
Street capital improvements p&m	-	-	-	-
Solid waste services	-	-	-	-
Unassigned	31,651,861	-	-	31,651,861
<b>Total Fund Balances</b>	<b>31,807,233</b>	<b>1,443,077</b>	<b>75,538</b>	<b>33,325,848</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 44,028,644</b>	<b>\$ 2,162,671</b>	<b>\$ 2,413,041</b>	<b>\$ 48,604,356</b>

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

**City of Spokane Valley, Washington**  
**Annual Financial Report - Fiscal Year 2015**

**Balance Sheet**

**Governmental Funds**

**December 31, 2015**

	City Hall Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 140,623	\$ 9,347,340	\$ 48,808,499
Taxes receivable	-	279,876	5,127,271
Accounts receivable, (net)	-	51,126	2,005,166
Interest receivable	-	2,139	13,580
Due from other funds	4,700,000	4,576,000	9,276,000
Grants receivable	-	21,422	2,342,299
Prepays	-	-	150,067
<b>Total Assets</b>	<b>\$ 4,840,623</b>	<b>\$ 14,277,903</b>	<b>\$ 67,722,882</b>
<b>Liabilities</b>			
Liabilities:			
Accounts payable	51,577	164,708	2,217,789
Accrued wages and benefits payable	-	16,853	543,015
Due to other funds	-	376,000	9,276,000
Deposits and other payables	-	-	521,943
Retainage payable	-	87,639	232,744
Unearned revenues	-	66,705	3,250,499
<b>Total Liabilities</b>	<b>51,577</b>	<b>711,905</b>	<b>16,041,990</b>
<b>Fund Balances:</b>			
Nonspendable:			
Prepaid expenses	\$ -	\$ -	\$ 150,067
Restricted for:			
Comcast PEG contributions	-	301,182	301,182
Parks & recreation grants	-	-	4,321
Law enforcement JAG & ARRA grants	-	-	19,737
Hotel/motel tourism facilities	-	182,347	182,347
Hotel/motel tourism promotion	-	208,702	208,702
Motor vehicle fuel tax roads & streets	-	-	1,424,324
Debt service LTGO refunding bonds 2014	-	4,049	4,049
Street capital construction & grants	-	-	75,538
Trails & paths	-	38,054	38,054
Capital projects REET 1&2 roads & streets	-	3,322,385	3,322,385
Committed to:			
Winter weather operations	-	444,472	444,472
Assigned to:			
Civic bldg capital replacement	-	1,182,548	1,182,548
Governmental type capital projects	-	4,576,597	4,576,597
Civic facilities capital replacement	4,789,046	559,108	5,348,154
Parks & recreation capital improvements	-	98,461	98,461
Street capital improvements p&m	-	2,605,219	2,605,219
Solid waste services	-	42,874	42,874
Unassigned	-	-	31,651,861
<b>Total Fund Balances</b>	<b>4,789,046</b>	<b>13,565,998</b>	<b>51,680,892</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,840,623</b>	<b>\$ 14,277,903</b>	<b>\$ 67,722,882</b>

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



**City of Spokane Valley, Washington**  
*Reconciliation of the Balance sheet of Governmental Funds  
To the Statement of Net Position  
December 31, 2015*

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**Total governmental fund balances:** **\$51,680,892**

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

Capital assets used in governmental activities are not financial resources.

This amount reflects the initial investment in capital assets and are not reported in the funds.

92,166,844

Certain earned tax revenues will be collected after year end and will not be available until after year end to pay for current expenditures; and therefore reported as unearned revenues in the funds.

These revenues consist of:

Sales and use taxes	2,110,972
Motor fuel taxes	163,918
Hotel/Motel taxes	52,133
Total	<u>2,327,023</u>

2,327,023

Other long-term assets are not available to pay for current period expenditures and therefore are reported as unearned in the funds:

Property taxes	315,165
Intergovernmental	390,474
Charges for services	107,297
Miscellaneous	110,540
Total	<u>923,476</u>

923,476

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

(29,819)

Internal service funds are used by management to charge the cost of certain activities, such as equipment rental and self insurance, to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

1,443,380

Long-term liabilities, including capital leases payable, accrued interest payable, deferred inflows and outflows, and GASB68 net pension liabilities (NPL) are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable	(6,375,000)
Net pension liabilities	(4,968,934)
Deferred inflows of resources	(766,203)
Deferred outflows of resources	611,013
Premium on bond issuance	(591,450)
Compensated Absences	(438,763)
Total	<u>(12,529,337)</u>

(12,529,337)

**Total Net position of Governmental Activities as shown  
on the Statement of Net Position:**

**\$135,982,459**

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

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**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended December 31, 2015**

	General Fund	Street Fund	Street Capital Projects Fund	Sub-Total Governmental Major Funds
<b>Revenues</b>				
Taxes	\$ 32,281,429	\$ 2,257,184	\$ -	\$ 34,538,613
Licenses and permits	2,260,035	-	-	2,260,035
Intergovernmental	2,089,795	1,935,629	8,223,959	12,249,383
Charges for services	1,313,700	11,200	50	1,324,950
Fines and forfeitures	530,393	-	-	530,393
Investment interest	81,969	3,212	37	85,218
Miscellaneous	712,514	13,967	363,894	1,090,375
<b>Total Revenues</b>	<b>39,269,835</b>	<b>4,221,192</b>	<b>8,587,940</b>	<b>52,078,967</b>
<b>Expenditures</b>				
Current:				
General government	4,538,534	-	-	4,538,534
Public safety	22,045,257	-	-	22,045,257
Utilities and physical environment	1,932,174	102,377	-	2,034,551
Transportation	-	3,978,815	63,077	4,041,892
Economic environment	339,757	-	-	339,757
Community development	2,070,699	-	-	2,070,699
Culture and recreation	2,787,974	-	-	2,787,974
Debt Service:				
Principal retirement	-	-	-	-
Interest expense	425	-	-	425
Capital Outlay:				
Capital expenditures	437,084	31,894	7,203	476,181
Construction in progress	10,600	-	9,579,949	9,590,549
<b>Total Expenditures</b>	<b>34,162,504</b>	<b>4,113,086</b>	<b>9,650,229</b>	<b>47,925,819</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>5,107,331</b>	<b>108,106</b>	<b>(1,062,289)</b>	<b>4,153,148</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	123,525	-	1,064,897	1,188,422
Transfers (out)	(3,750,720)	(370,273)	-	(4,120,993)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,627,195)</b>	<b>(370,273)</b>	<b>1,064,897</b>	<b>(2,932,571)</b>
<b>Net Change in Fund Balances (deficit)</b>	<b>1,480,136</b>	<b>(262,167)</b>	<b>2,608</b>	<b>1,220,577</b>
<b>Fund Balances Beginning of Year</b>	<b>30,327,097</b>	<b>1,705,244</b>	<b>72,930</b>	<b>32,105,271</b>
	-	-	-	-
<b>Fund Balances End of Year</b>	<b>\$ 31,807,233</b>	<b>\$ 1,443,077</b>	<b>\$ 75,538</b>	<b>\$ 33,325,848</b>

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

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended December 31, 2015**

	City Hall Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ -	\$ 2,895,051	\$ 37,433,664
Licenses and permits	-	81,806	2,341,841
Intergovernmental	-	1,218,747	13,468,130
Charges for services	-	125,000	1,449,950
Fines and forfeitures	-	-	530,393
Investment interest	-	12,442	97,660
Miscellaneous	-	-	1,090,375
<b>Total Revenues</b>	<b>-</b>	<b>4,333,046</b>	<b>56,412,013</b>
<b>Expenditures</b>			
Current:			
General government	-	-	4,538,534
Public safety	-	-	22,045,257
Utilities and physical environment	-	49,040	2,083,591
Transportation	-	101,813	4,143,705
Economic environment	-	484,968	824,725
Community development	-	-	2,070,699
Culture and recreation	-	-	2,787,974
Debt Service:			
Principal retirement	-	300,000	300,000
Interest expense	-	238,100	238,525
Capital Outlay:			
Capital expenditures	373,719	1,722,274	2,572,174
Construction in progress	-	2,885,415	12,475,964
<b>Total Expenditures</b>	<b>373,719</b>	<b>5,781,610</b>	<b>54,081,148</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(373,719)</b>	<b>(1,448,564)</b>	<b>2,330,865</b>
<b>Other Financing Sources (Uses)</b>			
Transfers In	5,162,765	5,566,156	11,917,343
Transfers (out)	-	(8,107,948)	(12,228,941)
<b>Total Other Financing Sources (Uses)</b>	<b>5,162,765</b>	<b>(2,541,792)</b>	<b>(311,598)</b>
<b>Net Change in Fund Balances (deficit)</b>	<b>4,789,046</b>	<b>(3,990,356)</b>	<b>2,019,266</b>
<b>Fund Balances Beginning of Year</b>	<b>-</b>	<b>17,556,354</b>	<b>49,661,625</b>
<b>Fund Balances End of Year</b>	<b>\$ 4,789,046</b>	<b>\$ 13,565,998</b>	<b>\$ 51,680,891</b>

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

**City of Spokane Valley, Washington**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2015*

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**Net change in fund balances - total governmental funds: \$2,019,267**

***Amounts reported for governmental activities in the statement  
of activities 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 as depreciation expense. This is the amount by which capital outlays and contributions exceeded depreciation in the current period:

Depreciation	(6,117,585)	
Capital outlay	15,048,140	8,930,555

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:

Sales and use taxes	146,154	
Property taxes	(5,944)	
Excise taxes	11,320	
Other taxes	25,041	
Miscellaneous	(297,968)	
Capital-operating grants and contributions	50,361	(71,036)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar transactions when debt is first issued or refunded, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the application of long-term debt and related items:

339,106

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated absences	(36,657)
Pension expense (GASB 68)	131,138

94,481

Internal service funds are used by management to charge the costs of fleet and risk management individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities:

63,167

***Total Change in Net Position of Governmental Activities  
as shown on the Statement of Activities:***

**\$11,375,540**

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

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**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Statement of Net Position - Proprietary Funds**

December 31, 2015

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	StormWater Management Fund	Aquifer Protection Area Fund	Total Proprietary Funds	
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,126,506	\$ 921,660	\$ 3,048,166	\$ 1,444,225
Taxes delinquent-receivable	65,129	-	65,129	-
Accounts receivable, (net)	-	-	-	-
Interest receivable	437	-	437	260
Prepays	30	-	30	-
<b>Total Current Assets</b>	<b>2,192,102</b>	<b>921,660</b>	<b>3,113,762</b>	<b>1,444,485</b>
Capital Assets:				
Buildings & structures	382,881	-	382,881	-
Machinery and equipment	214,742	-	214,742	175,321
Infrastructure	3,670,815	3,035,777	6,706,592	-
Construction in progress	83,158	-	83,158	-
Less accumulated depreciation	(891,103)	(221,201)	(1,112,304)	(29,599)
Total capital assets (net of accumulated depreciation)	3,460,493	2,814,576	6,275,069	145,722
<b>Total Assets</b>	<b>\$ 5,652,595</b>	<b>\$ 3,736,236</b>	<b>\$ 9,388,831</b>	<b>\$ 1,590,207</b>
<b>Deferred Outflows of Resources</b>				
Deferred amounts related to pensions	30,640	-	30,640	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 30,640</b>	<b>\$ -</b>	<b>\$ 30,640</b>	<b>\$ -</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 107,528	\$ -	\$ 107,528	\$ 1,105
Accrued payroll and benefits payable	25,631	-	25,631	-
Compensated absences	22,830	-	22,830	-
Deposits and other payables	32,100	-	32,100	-
Retainage payables	45,994	-	45,994	-
Unearned revenue	61,095	-	61,095	-
Net pension plan liabilities-2015	249,169	-	249,169	-
<b>Total Current Liabilities</b>	<b>544,347</b>	<b>-</b>	<b>544,347</b>	<b>1,105</b>
<b>Total Liabilities</b>	<b>544,347</b>	<b>-</b>	<b>544,347</b>	<b>1,105</b>
<b>Deferred Inflows of Resources</b>				
Deferred amounts related to pensions	38,421	-	38,421	-
<b>Total Deferred Inflows of Resources</b>	<b>38,421</b>	<b>-</b>	<b>38,421</b>	<b>-</b>
<b>Net Position</b>				
Net investments in capital assets	3,460,493	2,814,576	6,275,069	145,722
Restricted	-	-	-	-
Unrestricted	1,639,974	921,660	2,561,634	1,443,380
<b>Total Net Position</b>	<b>\$ 5,100,467</b>	<b>\$ 3,736,236</b>	<b>\$ 8,836,703</b>	<b>\$ 1,589,102</b>

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

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Statement of Revenues, Expenses, and Changes in Net Position**

**Proprietary Funds**

*For the Year Ended December 31, 2015*

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	StormWater Management Fund	Aquifer Protection Area Fund	Total Proprietary Funds	
<b>Operating Revenues</b>				
Charges for services	\$ 1,861,368	\$ -	\$ 1,861,368	\$ 35,544
Intergovernmental revenues	423,332	1,570,196	1,993,528	-
Miscellaneous revenues	-	-	-	-
<b>Total Operating Revenues</b>	<b>2,284,700</b>	<b>1,570,196</b>	<b>3,854,896</b>	<b>35,544</b>
<b>Operating Expenses</b>				
Personal services	406,340	-	406,340	14,722
Professional services	235,016	-	235,016	284,112
Materials and supplies	57,639	-	57,639	-
Other services and expenses	1,024,301	-	1,024,301	-
Depreciation and amortization	211,676	125,599	337,275	16,144
<b>Total Operating Expenses</b>	<b>1,934,972</b>	<b>125,599</b>	<b>2,060,571</b>	<b>314,978</b>
<b>Operating Income (loss)</b>	<b>349,728</b>	<b>1,444,597</b>	<b>1,794,325</b>	<b>(279,434)</b>
<b>Non-Operating Revenues (Expenses)</b>				
Intergovernmental revenues	-	-	-	-
Interest and investment income	2,455	-	2,455	1,457
Miscellaneous revenues	-	-	-	-
Other services & expenses	-	-	-	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>2,455</b>	<b>-</b>	<b>2,455</b>	<b>1,457</b>
<b>Income (loss) before Capital Contributions and Transfers</b>	<b>352,183</b>	<b>1,444,597</b>	<b>1,796,780</b>	<b>(277,977)</b>
<b>Contributions and Transfers</b>				
Capital contributions	-	-	-	-
Transfers In	120,000	-	120,000	325,000
Transfers (out)	(13,400)	(120,000)	(133,400)	-
<b>Change in Net Position</b>	<b>458,783</b>	<b>1,324,597</b>	<b>1,783,380</b>	<b>47,023</b>
<b>Net Position-Beginning of Year, January 1</b>	<b>4,905,211</b>	<b>2,411,639</b>	<b>7,316,850</b>	<b>1,542,079</b>
<b>Change in accounting principles-GASB 68</b>	<b>(263,527)</b>	<b>-</b>	<b>(263,527)</b>	<b>-</b>
<b>Net Position-January 1, RESTATED</b>	<b>4,641,684</b>	<b>-</b>	<b>4,641,684</b>	<b>-</b>
<b>Net Position-End of Year, December 31</b>	<b>\$ 5,100,467</b>	<b>\$ 3,736,236</b>	<b>\$ 8,836,703</b>	<b>\$ 1,589,102</b>

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

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended December 31, 2015**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>StormWater Management Fund</b>	<b>Aquifer Protection Area Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities</b>				
Cash received from customers	\$ 1,856,256	\$ 626,263	\$ 2,482,519	\$ -
Cash paid to employees	(156,112)	(2,228)	(158,340)	(14,722)
Cash payments to suppliers for goods and services	(1,251,782)	(11,313)	(1,263,095)	(283,716)
Other cash receipts	686,609	1,570,196	2,256,805	-
Receipts from interfund activity	-	-	-	35,544
Other cash payments	(406,798)	(736,757)	(1,143,555)	-
<b>Net cash (used for) provided by operating activities</b>	<b>728,173</b>	<b>1,446,161</b>	<b>2,174,334</b>	<b>(262,894)</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
Non-Capital grant/project receipts	-	-	-	-
Customer supplies/project expense reimbursements	-	-	-	-
Operating subsidies & transfers in (out) other funds	106,600	(120,000)	(13,400)	325,000
<b>Net cash (used for) noncapital financing activities</b>	<b>106,600</b>	<b>(120,000)</b>	<b>(13,400)</b>	<b>325,000</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition, construction & (transfers) of capital assets	(700,521)	(530,308)	(1,230,829)	(23,790)
Intergovernmental revenues/materials & supplies (net)	-	-	-	-
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(700,521)</b>	<b>(530,308)</b>	<b>(1,230,829)</b>	<b>(23,790)</b>
<b>Cash Flows from Investing Activities</b>				
Interest received	2,168	-	2,168	1,287
<b>Net cash provided by investing activities</b>	<b>2,168</b>	<b>-</b>	<b>2,168</b>	<b>1,287</b>
Net increase (decrease) in Cash and Cash Equivalents	136,420	795,853	932,273	39,603
Cash and Cash Equivalents - January 1, 2015	1,990,086	125,807	2,115,893	1,404,622
<b>Cash and Cash Equivalents - December 31, 2015</b>	<b>\$ 2,126,506</b>	<b>\$ 921,660</b>	<b>\$ 3,048,166</b>	<b>\$ 1,444,225</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating Income (loss)	\$ 349,728	\$ 1,444,597	\$ 1,794,325	\$ (279,434)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>				
Depreciation	211,676	125,599	337,275	16,144
<b>(Increase) Decrease in Assets:</b>				
(Increase) Decrease: Customer Receivables (net)	(5,112)	-	(5,112)	-
(Increase) Decrease in Grants Receivables	-	626,263	626,263	-
(Increase) Decrease: Inventory	-	-	-	-
(Increase) Decrease in deferred outflows related to pensions	30,640	-	30,640	-
<b>Increase (Decrease) in Liabilities:</b>				
Increase (Decrease): Accounts payable to suppliers	56,298	(11,313)	44,985	396
Increase (Decrease): Payroll and benefits payable	(2,148)	(2,228)	(4,376)	-
Increase (Decrease): Other Accounts Payables	(127,329)	(736,757)	(864,086)	-
Increase (Decrease): in net pension liability and deferred inflows related to pensions	218,278	-	218,278	-
Increase (Decrease): Compensated Absences	(3,858)	-	(3,858)	-
Total adjustments	347,805	1,564	349,369	16,540
<b>Net Cash Provided by (Used for) by Operating Activities</b>	<b>\$ 728,173</b>	<b>\$ 1,446,161</b>	<b>\$ 2,174,334</b>	<b>\$ (262,894)</b>

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

## Notes to Financial Statements

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### ***NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

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#### **A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental-type activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *Business-Type Activities*, which rely to a significant extent on fees and charges generated by external customers for support.

#### **B. Accounting and reporting changes**

For the reporting year ended December 31, 2015, the City has implemented GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as they relate to the City's pension plans.

As a result of the implementation of GASB 68 and 71, the City recorded adjustments to beginning net position in the amount of \$5,255,263 for governmental activities and \$263,527 for business-type activities for a total adjustment of \$5,518,790 to beginning net position.

#### **C. Reporting entity**

The City of Spokane Valley, Washington (the City) was incorporated on March 31, 2003. The City operates under a Council – Manager Form of government. The City's major operations, as authorized under the laws of the State of Washington applicable to a non-charter city code, include planning and zoning, public safety, public works, and recreation and culture.

The accounting and reporting policies of the City relate to the accompanying financial statements of the City of Spokane Valley, Washington which have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governmental entities. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, the Financial Accounting Standards Board (FASB), when applicable, and the American Institute of Certified Public Accountants (AICPA) pronouncements that have been made applicable by GASB Statements or Interpretations. As required by GAAP the City's financial statements present the City of Spokane Valley – the primary government.

#### **D. Basis of presentation - government-wide and fund financial statements**

While separate government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds) are presented to report the City's financial position and the results of operations, they are both interrelated. The governmental-type activities column incorporates data from the governmental funds and internal service funds, while business-type activities categorize data from the government's enterprise funds.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's Stormwater functions and various other functions and activities within the government. Elimination of these charges would distort the direct costs and program revenues reported in these various functions concerned. As discussed earlier, Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges created by those external customers.



## Notes to Financial Statements

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### ***NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued:***

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

Separate fund financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are combined, aggregated, and reported as *non-major* funds.

#### **E. Measurement focus, basis of accounting, and financial statement presentation**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as, *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

Property taxes, franchise fees, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been satisfied, and the amount is received during the period or within the availability period for this revenue source usually within 60 days of the fiscal year end. All other revenue items are considered to be measurable and available only when cash is received by the City (*modified basis of accounting*).

The city reports the following *major governmental funds*:

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

## Notes to Financial Statements

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### **NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *continued:*

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*The Street Fund:* This Special revenue fund is responsible for the street operating and maintenance service levels of all Spokane Valley city streets and bridges. It utilizes the receipts received from the motor vehicle fuel tax (MVFT) distributed to the City in accordance with the State Revised Codes of Washington (RCW) 82.36.020 and receipts from the City Telephone Tax implemented in 2009. Most of the service levels to the city streets during 2015 are the same or greater than provided for compared to 2014.

*Street Capital Projects Fund:* accounts for the accumulation of resources used to finance the six year transportation improvement plan. Revenues include transfers from the Capital and Special Capital Projects Fund, as well as Federal, State, and local grants.

*City Hall Construction Fund:* accounts for the accumulation of resources used to finance the construction of the new City Hall Building. Revenues include transfers from the General Fund.

The city reports the following *major proprietary funds*:

*The Stormwater Management Fund:* accounts for the receipt and expenditure of the stormwater management fee. The expenditures are used for stormwater control, construction, and management.

*The Aquifer Protection Area Fund:* accounts for aquifer protection area fees collected by Spokane County and remitted to the City. The expenditures are used for projects that protect the aquifer.

Additionally, the government reports the following *non-major fund types*:

*Special revenue funds:* accounts for revenue sources that are restricted for specific purposes such as Hotel/Motel tax revenues and expenditures, Winter Weather Reserve, and revenues and expenditures for the Trails & Paths Fund, PEG and Solid Waste Funds.

*Debt service fund:* accounts for the resources accumulated and payments made for principal and interest on general government debt except those to be accounted for in another fund.

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

*Internal service funds:* accounts for vehicle replacement, and risk management services provided to other departments on a cost reimbursement basis.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Stormwater Management Fund and Aquifer Protection Area Fund are stormwater management fees, aquifer protection area fees from Spokane County, and government grants. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

## Notes to Financial Statements

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### ***NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued:***

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#### **F. Budgetary information**

##### **1. Budgetary basis of accounting**

Annual appropriated budgets are adopted for all funds on a basis consistent with generally accepted accounting principles. The governmental funds are budgeted on the modified accrual basis of accounting whereas the basis of accounting for proprietary funds is full accrual. Legal budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is established at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers are used to monitor expenditures for individual functions and activities by object class.

##### **2. Procedures for adopting the original budget**

The City's budget procedures are mandated by the Revised Code of Washington 35A.33. The following are key procedural steps in the City's budget development process. Note that the process and dates are for the 2015 budget process and may be changed for future processes:

- In April, the official "budget call" required by State law is made to all department directors or fund managers. Budget development instructions and other materials are provided to the departments at this time.
- In June departments submit revenue and expenditure estimates to the Finance department. The City Council and City management staff discuss City goals and priorities and reaffirms overall City priorities, vision, and mission at a mid-year retreat. Additional policy guidance is provided throughout the year.
- In July the Finance department submits the preliminary budget to the City Manager.
- In August the City Manager submits estimates on the current year's revenue and expenditures for the upcoming year to the council. During August, preliminary budget documents were prepared, printed and filed with City Clerk. This proposed budget is presented to the City Clerk and copies are made available to the public. The Council sets the dates of the preliminary and final budget hearings.
- Before December 31<sup>st</sup> the City Council, by a majority vote, will adopt the budget by ordinance, establishing the budget appropriation for the year.
- The approved budget is published and distributed during the first quarter of the following year. Copies are made available to the public.
- Monthly budget monitoring reports are produced by the Finance Department to report on actual performance compared to budget estimates and to identify any remedial actions that may be needed.

##### **3. Amending the budget**

The budget, as adopted, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. The City Manager is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures of a fund, or that effect the number of authorized employee positions, salary ranges, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding a public hearing.

The City's budget was amended once during fiscal year 2015. 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. Annual appropriations for all funds lapse at the end of the fiscal period even if they have related encumbrances. Unexpended resources must be re-appropriated and become part of the subsequent period's budget pursuant to Washington States regulations.

## Notes to Financial Statements

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### **NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *continued:*

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#### **G. Assets, liabilities, unearned revenues, deferred inflows of resources, and net position/fund balance**

##### **1. Cash and cash equivalents**

The City considers all highly liquid assets including demand deposits, petty cash, money market accounts, certificates of deposit (CD's), investments in the Washington State Treasurer's Local Government Investment Pool (LGIP), and short-term investments with a maturity of three months or less from the date of acquisition as cash and cash equivalents. These amounts are classified on the balance sheet or in the statement of net position within cash and cash equivalents in the various funds. The interest on these investments is prorated to the applicable funds and the City's policy has been to hold its investments until maturity in an attempt to reduce market fluctuation risk. Investments of the City can be drawn down on demand.

##### **2. Investments**

As authorized by Washington state law, the City is allowed to invest in obligations of: the U.S. Treasury, commercial paper, certificates of deposits, money market funds, mutual funds, and the Washington State Treasurer's Local Government Investment Pool (LGIP).

Investments for the City of Spokane Valley are reported at fair value at December 31, 2015. The Washington State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with the Security Exchange Commission's (SEC) Rule 2a-7 of the Investment Company Act of 1940 and other appropriate state laws and regulations. The fair value of the LGIP portfolio is calculated by a master custodian or by an independent pricing service under contract with the State Treasurer's Office. The reported fair value of the City's pool position in the State of Washington's LGIP is the same as the fair value of the pool shares (refer to note 3).

##### **3. Receivables**

Taxes receivable consists of property taxes and related interest and penalties. Accrued interest receivable consists of amounts earned on investments, notes, and contracts. Grants receivable consist of amounts due from other governments for work performed on reimbursement-type grants. Customer accounts receivable/payable consist of amounts owed from/to private individuals or organizations for goods and services including amounts owed. Receivables have been reported *net* of estimated uncollectible accounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Grants receivable are considered fully collectible and no estimated uncollectible amounts are established.

##### **4. Amounts due to and from other funds, interfund loans and advances receivable**

During the course of operations the City of Spokane Valley has activity between funds for various purposes. Any residual balances outstanding at year end are reported as *due from/to other funds*. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental-type activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental-type activities column. Similarly, balances between the funds included in business-type activities (i.e., the proprietary funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column (refer to note 8).

Further, certain activity occurs during the year involving *transfers* of resources between funds. In the fund financial statements these amounts are reported at gross amounts of *transfers in/out*. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. *Transfers* between the funds included in governmental-type activities are eliminated so that only the net amount is included as transfers in the governmental-type activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column (refer to note 8).

## Notes to Financial Statements

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### **NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *continued:*

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#### **5. Inventories and prepaid items**

Reported inventories in the governmental and proprietary funds consist of expendable supplies held for consumption and are valued at cost using first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenditure/expenses at the time individual inventory items when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when it was purchased.

#### **6. Capital assets**

Capital assets include: property, plant, equipment, infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets, including infrastructure assets as assets with an initial and individual cost of more than \$5,000, and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of proprietary/business-type activities is included as part of the capitalized value of the assets constructed and the amount of interest capitalized depends on the specific circumstances (refer to note 5). There were no interest expenses incurred during 2015 that were included as part of the cost of capital assets under construction.

Land and construction in progress (CIP) are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated service lives:

Buildings and improvements	10 - 60 years
Infrastructure	5 - 40 years
Light/Heavy duty transportation equipment	5 - 10 years
Other equipment	2 - 20 years
Office and computer equipment	3 - 5 years

#### **7. Deferred outflows/inflows of resources**

The City of Spokane Valley currently has three sources that qualify for reporting as a deferred outflow/inflow of resources for fiscal year 2015 under this standard. These sources consists of traffic mitigation fees, Washington State Office of Public Defense grant funds received in advance and proportionate share in net pension obligations as per GASB 68. At December 31, 2015, the City of Spokane Valley reported deferred outflow of \$641,653 for pension plans and deferred inflows of \$804,624 for the same plans for its proportionate share of the net pension liabilities.

#### **8. Compensated absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to 360 hours, is payable upon resignation, retirement, or death. All vacation pay is accrued when incurred in the government-wide, proprietary and fund financial statements. An additional amount has been accrued for the city's share of Medicare taxes and the Social Security substitute plan related to vacation accruals. A liability for these amounts is reported in the government fund statements only if they have matured for example, the result of an employee resignation and or retirement.

#### **9. Other Accrued Liabilities**

These accounts consist primarily of accrued wages and employee benefits and deposits payable (refer to note 11).

## Notes to Financial Statements

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### ***NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued:***

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#### **10. Long-Term Debt**

Refer to note 9 – Long-Term Obligations and Leases.

#### **11. Unearned Revenues**

The unearned revenues account is used to offset receivables established in the governmental fund financial statement for certain revenues that are measurable but not considered available to finance payment of current obligations, and, therefore, are not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. Unearned revenues represented in this manner on the accompanying financial statements are: uncollected property taxes levied, uncollected road taxes levied, sales and use taxes, motor fuel taxes, hotel/motel taxes, and reimbursement-type grants received outside the period of availability.

#### **12. Net position flow assumption (GASB Statement No.63)**

Sometimes the City of Spokane Valley will fund outlays for a particular purpose from both restricted (e.g., grant proceeds or street construction and maintenance) and unrestricted resources. In order to calculate these amounts to report as restricted -- net position and unrestricted -- net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which these resources are considered to be applied and used. The City considers restricted -- net position to have been depleted before unrestricted -- net position is applied.

#### **13. Fund balance flow assumptions**

Sometimes the City of Spokane Valley will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the City's governmental fund financial statements, a flow assumption must be made about the order in which these resources are considered to be applied and used. When both restricted and unrestricted fund balances are available for use; the City depletes restricted fund balance first before using any of the components of unrestricted fund balance. Similarly, within unrestricted fund balance can be used for the same purpose, committed fund balance amounts are reduced first, followed by assigned fund balance, and then unassigned fund balance amounts are used when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be applied.

#### **14. Fund balance policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of these financial resources for specific purposes. The City of Spokane Valley itself can establish limitations on the use of its financial resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

*Nonspendable* fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted* fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

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



## Notes to Financial Statements

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### ***NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued:***

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Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. The City Council can by resolution authorize the Finance Director to assign fund balance. Unlike commitments, assignments generally only exist temporarily. No formal or additional action is required by the City Council to remove an assignment. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

As discussed earlier, the City does not have a fund balance spending prioritization policy. Therefore, restricted resources are used first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance – The City has a policy of maintaining a minimum General Fund ending fund balance of at least fifty percent of recurring general fund expenditures, which represents approximately six months of General Fund operations.

#### **15. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:***

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#### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund statements include reconciliations between the fund statements and the government-wide statements. Differences that make reconciliations necessary include the two differing measurement focuses and basis of accounting, accrual and modified accrual between the statements.

The governmental fund balance includes reconciliations between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, net pension liabilities, deferred outflows and inflows, and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$(12,529,337) difference are as follows:

## Notes to Financial Statements

### **NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** *continued:*

Bonds payable	\$ (6,375,000)
Net pension liabilities	(4,968,934)
Deferred outflows of resources	611,013
Deferred inflows of resources	(766,203)
Premium on bond issuance	(591,450)
Compensated absences	<u>(438,763)</u>

Net adjustment to **reduce** fund balance - total governmental funds  
to arrive at *net position* - governmental activities **\$ (12,529,337)**

Another element of that reconciliation explains the “Internal service funds are used by management to charge the cost of certain activities, such as health insurance costs to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.” The details of the \$1,443,380 difference are as follows.

Net position of the internal service fund	\$ 1,589,102
Less: Governmental type Internal Service Capital Assets	<u>(145,722)</u>

Net adjustment to **increase** fund balance - total governmental funds  
to arrive at *net position* governmental activities **\$ 1,443,380**

Also, another element of the reconciliation explains that capital assets used in governmental activities are not financial resources and the balance reflects the initial investment in capital assets therefore, “governmental funds do not report capital assets.” The details of the \$92,166,844 difference are as follows:

Land	\$ 8,078,868
Construction in Progress	<u>10,426,093</u>
Total non-depreciable capital assets	<u><u>18,504,961</u></u>
Depreciable capital assets	\$ 319,854,422
Less: Accumulated depreciation-depreciable assets	<u>(246,192,539)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>73,661,883</u>
Net adjustment to <b>increase</b> fund balance - total governmental funds to arrive at <i>net position</i> - governmental activities	<u><b>\$ 92,166,844</b></u>

Certain earned tax revenues were collected and other long-term assets will not be available until after the year end to pay for current expenditures; and therefore represent an acquisition of net position that applies to future period(s) and will not be recognized as an *inflow of resources (revenue)* until that time and accordingly, these items will be reported as *unearned revenues* in the governmental fund balance sheet. The details of the \$3,250,499 reconciled difference presented as follows:



## Notes to Financial Statements

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### **NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** *continued:*

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Unearned revenue-property tax	\$ 315,165
Unearned revenue-sales & use tax	2,327,023
Unearned revenue-deposits & liens	<u>608,311</u>
Net adjustment to <b>increase</b> fund balance - total governmental funds to arrive at net position governmental activities	<u><b>\$ 3,250,499</b></u>

#### **B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes this reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expenses in the current period.” The details of this \$8,930,555 difference are as follows:

Capital outlay	\$ 15,048,140
Depreciation expense	<u>(6,117,585)</u>
Net adjustment to <b>increase</b> net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities	<u><b>\$ 8,930,555</b></u>

This is the amount by which Bond payable repayments in the amount of \$339,106 exceeded bond proceeds.

Another element of the reconciliation states that “some long-term revenues in the statement of activities that do not provide current financial resources to governmental funds are not reported as revenues in the funds.” The details of this \$(71,036) difference are as follows:

Unearned revenue-property taxes	\$ (5,944)
Unearned revenue-sales & use taxes	146,154
Unearned revenue-excise taxes	11,320
Unearned revenue-other taxes	25,041
Unearned revenue-charges for services	(297,968)
Unearned revenue-capital grants & contributions	<u>50,361</u>
Net adjustment to <b>decrease</b> net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities	<u><b>\$ (71,036)</b></u>

## Notes to Financial Statements

### **NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** *continued:*

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds”. The details of this \$94,481 difference are as follows:

Compensated absences	\$ (36,657)
Pension expense (GASB 68)	<u>131,138</u>
Net adjustment to <b>increase</b> <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><b>\$ 94,481</b></u>

Another element of the reconciliation states the “internal service funds are used by management to charge the cost of certain activities, such as self-insurance and equipment rental and replacement, to individual funds.” The details of this \$63,167 difference are as follows:

Revenues:	
Interest and investment income & charges for services	<u>\$ 37,001</u>
Total Revenues	<u>37,001</u>
(Less) expenses, depreciation governmental funds type and net transfers:	<u>26,166</u>
Net adjustment to <b>increase</b> <i>net changes in fund balances</i>	<u><b>\$ 63,167</b></u>

### **NOTE 3 – DEPOSITS AND INVESTMENTS:**

As of December 31, 2015, the City of Spokane Valley had the following investments:

<b>Investment Type</b> <i>(amounts are in thousands)</i>	<b>12/31/2015</b> <b>(Fair Value)</b>	<b>Weighted Average</b> <b>Maturity (Years)</b>
Commercial paper	\$ 5,006	0.63
Local Government Investment Pool State of Washington	<u>43,507</u>	0.45
Total fair value of investments:	<u><b>\$ 48,513</b></u>	
Portfolio weighted average maturity		<b>0.47</b>

**Interest rate risk.** In accordance with its investment policy, the City of Spokane Valley manages its exposure to declines in fair values by limiting the weighted average maturity (WAM) of its investment portfolio to less than six months.

**Credit risk:** As required by state law, all investments of the City’s funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligation of Washington State municipalities the State Treasurer’s Local Government Investment Pool (LGIP Revised Code of Washington RCW 43.250), and certificates of deposit (CDs) with Washington State banks and savings and loan institutions. Also, State law limits these investments to the highest ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City of Spokane Valley’s policy to limit its investments in these investment types to the highest ratings issued by NRSROs. As of

## Notes to Financial Statements

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### **NOTE 3 – DEPOSITS AND INVESTMENTS** *continued:*

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December 31, 2015, the City of Spokane Valley's investment in the State Treasurer's investment pool was rated Aa3 by Moody's. The City of Spokane Valley's investments in commercial paper was rated A1 by Standard & Poor's.

*Concentration of credit risk:* The City of Spokane Valley's investment policy does not allow for an investment in any one issuer that is in excess of the Federal Depository Insurance (FDIC) coverage and the Washington Public Deposit Protection Commission (PDPC) of the City's total investments.

*Custodial credit risk-deposits:* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned or recovered. The City of Spokane Valley maintains a deposit policy for custodial credit risk by limiting deposits and certificates of deposits to be covered by (FDIC) or through collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington and provides an additional level of security for The City of Spokane Valley's deposits. As of December 31, 2015, the City of Spokane Valley's total bank balance of \$6,096,117 was insured and covered by the FDIC and the Washington State PDPC pool and therefore, was not exposed to any custodial credit risk-deposits. These banks deposits were in a State authorized public depository and were within the State limit of the depositories (bank's) net worth per RCW 39.58.010 and RCW 39.58.135.

*Custodial credit risk-investments:* Investments in the State's LGIP are shown on the entity-wide Statement of Net Position at fair market value and comparable to a Rule 2a-7 money market fund regulated by The Securities and Exchange Commission (SEC, 17CFR.270.2a-7). The City's investments can be categorized to give an indication of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent, but not in the City's name. The City had no Category 1, 2, or 3 type investments in their investment portfolio as of December 31, 2015.

### **NOTE 4 – PROPERTY TAXES:**

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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.

Taxes are levied annually on January 1<sup>st</sup> on property values assessed as of the prior year May 31<sup>st</sup>. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every four years. Taxes are due in two equal installments on April 30<sup>th</sup> and October 31<sup>st</sup>. Tax liens are automatic at the point the taxes are levied.

Property taxes levied for the current year are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. For 2015, the City's regular levy was \$11,279,152 based on the 2014 assessed value of \$7,393,971,582.

The tax rate for general City operations is limited by State law (RCW 84.52.043) to \$3.60 per \$1,000 of assessed valuation, deducting from there the levy of \$1.50 by the Spokane County Fire Districts #1 and #8, and \$.50 for Library Districts, which leaves the City with the authority to levy \$1.53 for its own purposes. This amount may be reduced for any of the following reasons:

## Notes to Financial Statements

### NOTE 4 – PROPERTY TAXES continued:

- (1) The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one-percent limit.
- (2) Initiative 747 passed by the voters in November of 2001 limits the amount by which a taxing jurisdiction can increase the amount of its regular property tax levy to the lesser of the Implicit Price Deflator (IPD) or one percent, plus adjustments for new construction and annexations. Tax increases higher than one percent must be approved by the voters at an election held according to (RCW 84.55.050.) A simple majority vote is required.
- (3) The City may voluntarily levy taxes below the legal limit.

### NOTE 5 – CAPITAL ASSETS AND DEPRECIATION:

Donated capital assets received from Spokane County at the time of incorporation were recorded at cost and the accumulated depreciation at the time of transfer. The following schedule details capital assets donated and transferred during the year ended December 31, 2003:

	Historical Cost	Accumulated Depreciation	Balance after Depreciation Cost
<b><u>Infrastructure:</u></b>			
Roadways	\$ 187,732,531	\$ 127,418,027	\$ 60,314,504
Signs, signals, beacons	9,056,000	4,528,000	4,528,000
Crosswalks	130,084	13,008	117,076
Bridges	5,633,979	2,808,112	2,825,867
Total infrastructure	<u>202,552,594</u>	<u>134,767,147</u>	<u>67,785,447</u>
<b><u>Parks:</u></b>			
Land	1,548,655	-	1,548,655
Buildings	898,729	609,824	288,905
Improvements other buildings	2,123,571	1,059,298	1,064,273
Machinery and equipment	3,337	3,003	334
Total parks	<u>4,574,292</u>	<u>1,672,125</u>	<u>2,902,167</u>
<b>Total County assets donated</b>	<b><u>\$ 207,126,886</u></b>	<b><u>\$ 136,439,272</u></b>	<b><u>\$ 70,687,614</u></b>

Governmental-type Capital asset activity for the year ended December 31, 2015, is summarized as follows:

Governmental-type activities	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance Dec. 31, 2015
Land (non-depreciable)	\$ 6,892,688	\$ 1,186,180	\$ -	\$ 8,078,868
Construction in progress (CIP)	6,175,886	7,608,341	(3,358,133)	10,426,093
<b>Total non-depreciable assets</b>	<b>13,068,574</b>	<b>8,794,521</b>	<b>(3,358,133)</b>	<b>18,504,961</b>
Buildings	12,883,856	-	-	12,883,856
Leasehold improvements	140,052	294,575	-	434,627
Improvements other than buildings	9,943,140	2,198,486	-	12,141,627
Infrastructure	284,222,291	6,896,332	-	291,118,623
Machinery and equipment	3,029,540	246,149	-	3,275,689
<b>Total depreciable assets</b>	<b>310,218,879</b>	<b>9,635,542</b>	<b>-</b>	<b>319,854,422</b>
<b>Total capital assets</b>	<b>\$ 323,287,453</b>	<b>\$ 18,430,063</b>	<b>\$ (3,358,133)</b>	<b>\$ 338,359,383</b>

## Notes to Financial Statements

### NOTE 5 – CAPITAL ASSETS AND DEPRECIATION *continued:*

	Beginning Balance			Ending Balance
<i>Less accumulated depreciation for:</i>	1/1/2015	Additions	Reductions	12/31/2015
Buildings	\$ 3,463,475	\$ 321,887	\$ -	\$ 3,785,362
Leasehold improvements	130,355	6,098	-	136,453
Improvements other than buildings	4,628,282	645,787	-	5,274,069
Infrastructure	229,330,104	4,979,563	-	234,309,667
Machinery and equipment	2,522,737	164,251	-	2,686,988
<b>Total accumulated depreciation</b>	<b>\$ 240,074,953</b>	<b>\$ 6,117,585</b>	<b>\$ -</b>	<b>\$ 246,192,539</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 83,212,500</b>	<b>\$ 12,312,478</b>	<b>\$ (3,358,133)</b>	<b>\$ 92,166,844</b>

Business-type Capital asset activity for the year ended December 31, 2015, is summarized as follows:

	Balance			Balance
<b>Business-type activities;</b>	1/1/2015	Additions	Reductions	12/31/2015
Construction in progress	\$ 101,862	\$ 53,724	\$ (72,428)	\$ 83,158
<b>Total non-depreciable</b>	<b>101,862</b>	<b>53,724</b>	<b>(72,428)</b>	<b>83,158</b>
Buildings and structures	382,881	-	-	382,881
Infrastructure	5,472,603	1,233,989	-	6,706,592
Machinery and equipment	199,196	15,546	-	214,742
<b>Total depreciable</b>	<b>6,054,680</b>	<b>1,249,535</b>	<b>-</b>	<b>7,304,215</b>
<b>Total capital assets</b>	<b>\$ 6,156,542</b>	<b>\$ 1,303,259</b>	<b>\$ (72,428)</b>	<b>\$ 7,387,373</b>
<b>(Less) accumulated depreciation for:</b>				
Buildings and structures	\$ 47,234	\$ 12,786	\$ -	\$ 60,020
Infrastructure	564,160	300,403	-	864,563
Machinery and equipment	163,635	24,086	-	187,721
<b>Total accumulated depreciation</b>	<b>775,029</b>	<b>337,275</b>	<b>-</b>	<b>1,112,304</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 5,381,513</b>	<b>\$ 965,984</b>	<b>\$ (72,428)</b>	<b>\$ 6,275,069</b>

## Notes to Financial Statements

### **NOTE 5 – CAPITAL ASSETS AND DEPRECIATION** *continued:*

Depreciation expense was charged to current functions of the primary government for 2015 as follows (includes Internal Service Funds Governmental type):

<b>Governmental Activities:</b>	\$	84,896
General Government		59,779
Public Safety		1,171,013
Physical Utilities & Environment		3,881,409
Transportation		38,156
Economic Environment		882,332
Culture & Recreation		
<b>Total governmental activities current year depreciation expense</b>	<b>\$</b>	<b>6,117,585</b>
<b>Business-type activity:</b>		
StormWater	\$	211,676
Aquifer Protection Area		125,599
<b>Total business-type activities current year depreciation expense</b>	<b>\$</b>	<b>337,275</b>

### **Construction commitments**

The City of Spokane Valley was involved in many construction projects as of December 31, 2015. The projects include various street and park construction projects with a total of \$17,294,006 of contracts in place. At year end the City's commitments with contractors are as follows:

<b>Construction Commitments</b>	<b>Original Commitment</b>	<b>Spent to Date</b>	<b>Remaining Commitment at 12/31/15</b>
Broadway @ Argonne Mullan	\$ 12,650	\$ 4,973	\$ 7,678
City Hall	1,011,673	361,637	650,036
Citywide Safety Improvements	14,575	-	14,575
Houk-Sinto-Maxwell St Preservation	346,627	334,544	12,083
Indiana & evergreen Transit Access Imp	3,700	3,052	648
ITS Infill Project - Phase 1	52,450	28,037	24,413
Mission Ave - Flora to barker	57,915	35,601	22,314
Pines Rd. (SR27) & Grace Ave Int Safety	38,765	37,047	1,718
Seth Woodard Sidewalk Improvements	5,500	4,919	581
Sullivan Rd Preservation Project	899,263	848,711	50,552
Sullivan Rd W Bridge Replacement #4508	14,834,773	8,462,133	6,372,640
Transportation Management Center	16,115	-	16,115
<b>Total Construction Commitments</b>	<b>\$ 17,294,006</b>	<b>\$ 10,120,653</b>	<b>\$ 7,173,353</b>

The various street, bridge, and parks construction projects are being funded by state and local grants, as well as, existing resources in various City Funds.

## Notes to Financial Statements

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### **NOTE 6 – PENSION PLANS:**

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The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 5,218,103
Pension assets	\$ -
Deferred outflows of resources	\$ 641,653
Deferred inflows of resources	\$ 804,624
Pension expense/expenditures	\$ 489,220

#### **State Sponsored Pension Plans**

Substantially all City of Spokane Valley full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

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

#### **Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

##### **PERS Plan 1**

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

## Notes to Financial Statements

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### **NOTE 6 – PENSION PLANS** *continued:*

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#### Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%

The City of Spokane Valley actual contributions to the plan were \$274,474 for the year ended December 31, 2015. The City did not have any current employees participating in PERS Plan 1 during 2015. These contributions represent amounts allocated to PERS Plan 1 by DRS for the Unfunded Actuarial Accrued Liability (UAAL) to support payments for prior employees under this plan.

#### **PERS Plan 2/3**

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 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. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

#### Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension



## Notes to Financial Statements

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### **NOTE 6 – PENSION PLANS** *continued:*

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Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City of Spokane Valley actual contributions to the plan were \$352,459 for the year ended December 31, 2015.

#### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- *Inflation:* 3% total economic inflation; 3.75% salary inflation
- *Salary increases:* In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- *Investment rate of return:* 7.5%

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.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

## Notes to Financial Statements

### NOTE 6 – PENSION PLANS *continued*:

#### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

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. 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. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities which is the UAAL). 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.

#### Long-Term Expected Rate of Return

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.

#### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

#### Sensitivity of NPL

The table below presents the City of Spokane Valley proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City of Spokane Valley proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5% )	Current Discount Rate (7.5% )	1% Increase (8.5% )
PERS 1	\$ 3,375,077	\$ 2,772,131	\$ 2,253,653
PERS 2/3	\$ 7,152,149	\$ 2,445,972	\$ (1,157,371)

#### Pension Plan Fiduciary Net Position

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

## Notes to Financial Statements

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### **NOTE 6 – PENSION PLANS** *continued:*

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#### **Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the City of Spokane Valley reported a total pension liability of \$5,218,103 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 2,772,131
PERS 2/3	\$ 2,445,972

#### **Proportionate Share of Collective net pension liabilities**

At June 30, the City of Spokane Valley's (applicable plans) proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/2014</b>	<b>Proportionate Share 6/30/2015</b>	<b>Change in Proportion</b>
PERS 1	0.052519%	0.052995%	0.000476%
PERS 2/3	0.067619%	0.068456%	0.000837%

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 Non employer Allocations for all plans except LEOFF 1.

#### **Pension Expense**

For the year ended December 31, 2015, the City of Spokane Valley recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 191,263
PERS 2/3	\$ 297,957

#### **Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the City of Spokane Valley reported deferred outflows of resources and deferred inflows of resources related to pensions from the following PERS plans:

## Notes to Financial Statements

### NOTE 6 – PENSION PLANS continued:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected & actual experience	\$ -	\$ -
Net difference between projected & actual investment earnings on pension plan investments	\$ -	\$ 151,666
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions & proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 152,107	\$ -
<b>Total</b>	<b>\$ 152,107</b>	<b>\$ 151,666</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected & actual experience	\$ 260,008	\$ -
Net difference between projected & actual investment earnings on pension plan investments	\$ -	\$ 652,958
Changes of assumptions	\$ 3,942	\$ -
Changes in proportion and differences between contributions & proportionate share of contributions	\$ 26,932	\$ -
Contributions subsequent to the measurement date	\$ 198,664	\$ -
<b>Total</b>	<b>\$ 489,546</b>	<b>\$ 652,958</b>

Deferred outflows of resources related to pensions resulting from the City of Spokane Valley's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>Year ended December 31:</b>	<b>PERS 2/3</b>
<b>2016</b>	\$ (58,780)	<b>2016</b>	\$ (169,360.00)
<b>2017</b>	\$ (58,780)	<b>2017</b>	\$ (169,360.00)
<b>2018</b>	\$ (58,780)	<b>2018</b>	\$ (169,361.00)
<b>2019</b>	\$ 24,676	<b>2019</b>	\$ 146,003.00
<b>2020</b>	\$ -	<b>2020</b>	\$ -
<b>Thereafter</b>	\$ -	<b>Thereafter</b>	\$ -

## Notes to Financial Statements

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### ***NOTE 7 – RISK MANAGEMENT:***

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The City of Spokane Valley is exposed to financial loss resulting from City-caused damage to property or persons, bodily injuries or illness of employees, and unemployment compensation. The City is insured and a member of the Washington Cities Insurance Authority (WCIA) for general liability and property damage coverage. The City uses the Washington State Department of Labor and Industries Insurance Services for coverage to pay for medical care for job-related injuries and illnesses, and wage replacement when the injury or illness is serious enough to miss work. The City is self-insured for unemployment compensation benefits. The Risk Management Fund is used to account for, and finance the liability and Unemployment insurance costs. Departments of the City make payments through interfund assessments to the fund on estimates of the amounts needed to pay prior and current year claims.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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

The City of Spokane Valley is self-insured on a reimbursement basis for unemployment compensation. The City incurred \$14,890 in claims for unemployment compensation in 2015 and did not have any settlements that exceeded insurance coverage in the last three prior years.

## Notes to Financial Statements

### NOTE 8 – INTERFUND BALANCES AND TRANSFERS:

#### Interfund Balances

Sometimes during the course of operations, and as a part of the City's regular programmatic activity, one fund will sell goods, have work performed or services provided to another fund in return for equal or almost equal value. As a result of such exchanges, an interfund services provided and used applies to any residual balances outstanding at year end and the City reports this type of activity as *due from/to other funds*. Due to other fund and due from other fund balances at December 31, 2015, were:

	Due from other funds	Due to other funds
General fund	\$ -	\$ 7,500,000
Street fund	-	-
Street capital projects fund	-	1,400,000
City hall construction fund	4,700,000	-
Nonmajor governmental funds	4,576,000	376,000
	<u>                    </u>	<u>                    </u>
Total business type activities	\$ -	\$ -
	<u>                    </u>	<u>                    </u>
Total government - wide	<u>\$ 9,276,000</u>	<u>\$ 9,276,000</u>

#### Interfund Transfers

Interfund transfers are the flow and reassignment of resources between funds without the exchange of equal or almost equal value between the funds, typically referred to as a *nonexchange transaction or nonreciprocal interfund activity*. The City (1) *transfers* revenues from the fund that statutes or budget requires to collect them to the fund that the statute or budget requires to expend them, (2) *transfers* restricted resources for the purpose of debt service from the funds collecting the receipts to the debt service fund for debt service payments, and (3) *transfers* unrestricted revenues collected in the general and street funds to finance various programs accounted for in other funds in accordance with budgetary authority.

Interfund transfer activity for 2015 is as follows:

	Transfers - in	Transfers - (out)
General fund	\$ 123,525	\$ 3,750,720
Street fund	-	370,273
Hotel/Motel fund	-	98,000
Solid Waste fund	-	40,425
PEG fun	267,333	-
Civic facilities replacement fund	-	616,284
Debt service fund	164,300	-
Capital projects fund	-	900,312
Special capital projects fund	-	664,298
Street capital projects fund	1,064,897	-
Parks capital projects fund	708,387	-
Civic Buildings Capital Projects fund	397,624	-
Pavement Preservation fund	2,245,000	-
Capital Reserve fund	1,783,512	5,788,630
City Hall Construction fund	5,162,764	-
Stormwater management fund	120,000	13,400
Aquifer Protection Area fund	-	120,000
Internal Service Funds (Gov't type)	325,000	-
Total government - wide	<u>\$ 12,362,342</u>	<u>\$ 12,362,342</u>

## Notes to Financial Statements

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### ***NOTE 8 – INTERFUND BALANCES AND TRANSFERS continued:***

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The City made the following one-time transfers during the year ending December 31, 2015. These one-time transfers are included in the table above:

- A \$267,333 transfer from the General Fund to the PEG Fund to establish the new fund with restricted cash balances.
- A \$5.2 million transfer from the Capital Reserve Fund to the City Hall Construction Fund for the construction of the new City Hall building.

### ***NOTE 9 – LONG -TERM OBLIGATIONS AND LEASES:***

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#### **Pension Obligations**

The City's net pension liability for the year ended December 31, 2015, is \$5,218,103. Refer to note 6 for additional information and activity related to the City's pension plans.

#### **General Obligation Bonds**

The City of Spokane Valley issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental-type activities. These 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<sup>th</sup> 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 (i.e., councilmanic bonds). In 2003, the City issued \$9,430,000 of councilmanic bonds to finance construction of the CenterPlace Community Center and for various street construction projects. The City expects to receive intergovernmental payments from the Spokane Public Facilities District pursuant to an inter-local agreement dated July 2003, for \$7 million of the bonds.

#### **Refunded Bonds**

On August 27, 2014, The City of Spokane Valley issued \$7,035,000 of Limited Tax General Obligation 2014 Refunding Bonds to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on the old \$7,435,000 of refunded debt. As a result, the refunded bonds are now considered defeased, retired, and the liability has been removed subsequently from the City of Spokane Valley's governmental activities financial statements of net position. This refunding was undertaken to reduce total debt service payments over the life of the bonds and resulted in an economic gain of \$1,283,730.

General obligation refunding bonds 2014 currently outstanding as December 31, 2015, are as follows:

<b><u>Name of Issuance</u></b>	<b><u>Purpose</u></b>	<b><u>Interest Rate</u></b>	<b><u>Maturity</u></b>	<b><u>Debt Outstanding</u></b>
LTGO'14 Refunding Bonds	Governmental Activitie	2.00% - 4.00%	12/1/2033	\$6,375,000

## Notes to Financial Statements

### NOTE 9 – LONG -TERM OBLIGATIONS AND LEASES *continued:*

The annual debt service requirements to maturity for general obligation refunding bonds, 2014 are as follows:

<b>Governmental - Type Activities</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2016	315,000	232,100	547,100
2017	320,000	222,650	542,650
2018	365,000	213,050	578,050
2019	395,000	202,100	597,100
2020	430,000	190,250	620,250
2021-2025	2,405,000	710,150	3,115,150
2026-2030	1,670,000	267,000	1,937,000
2031-2033	475,000	37,400	512,400
<b>Totals</b>	<b>\$6,375,000</b>	<b>\$2,074,700</b>	<b>\$ 8,449,700</b>

Long-term debt on the Statement of Net Position is presented net of any premium/discount incurred at the time of issuance. The 2014 LTGO'14 Refunding Bonds were sold at a premium of \$625,694 and were reported at the net amount of \$669,663 including the underwriters discount expense. The premium will be amortized over the life of the bonds and the outstanding liability balance as of December 31, 2015, is \$591,450.

### Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
<b>Governmental - type activities</b>	<b>1/1/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>12/31/2015</b>	<b>Due within One Year</b>
Bonds and notes payable:					
General obligation bonds	\$ 6,675,000	\$ -	\$ (300,000)	\$ 6,375,000	\$ 315,000
Premium on LTGO bonds	630,556	-	(39,106)	591,450	39,106
Other liabilities:					
Net pension plan liabilities	-	5,218,103	-	5,218,103	-
Compensated absences	402,106	36,657	-	438,763	36,657
<b>Governmental activities</b>					
<b>long-term liabilities</b>	<b>\$7,707,662</b>	<b>\$5,254,760</b>	<b>\$ (339,106)</b>	<b>\$12,623,316</b>	<b>\$ 390,763</b>

Long-term liabilities for business-type activities consist of compensated absences in the Stormwater Management Fund. The balance of these compensated absences was \$22,830 as of December 31, 2015.

### Legal Debt Margin

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to two and one-half percent of the city's assessed valuation, for a total debt capacity of seven and one-half percent.



## Notes to Financial Statements

### ***NOTE 9 – LONG -TERM OBLIGATIONS AND LEASES continued:***

The 2014 assessed valuation of the City for the Levy year of 2015, for purposes of determining the legal debt margin is \$7,393,971,582. 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. The remaining voted and non-voted GO debt capacities for General purposes of the City at December 31, 2015, are as follows:

	<u>Amount</u>
General Purposes Voted and Non-voted Debt - 2.5%	\$ 178,035,527
Utility Voted Debt - 2.5%	184,849,290
Open Space and Park Facilities Voted Debt - 2.5%	184,849,290
<b>Total Remaining Debt Capacity</b>	<b><u><u>\$547,734,107</u></u></b>

#### **Leases**

The City of Spokane Valley leases buildings and other equipment under noncancelable operating lease agreements. Operating leases do not give rise to property rights or lease debt obligations, and therefore the results of these agreements are not reflected in the General Long-term Obligations of government activities. Total costs for such leases were \$475,232 for the fiscal year ending December 31, 2015. The future minimum lease payments for these leases are presented as follows (table follows):

<u>Year Ending Dec. 31</u>	<u>Amount</u>
2016	\$ 480,202
2017	136,729
2018	11,605
2019	4,261
2020	3,195
Total minimum future lease payments	<u><u>\$ 635,992</u></u>

The City's lease for the current city hall terminates at the end of the 36<sup>th</sup> month, or March 2017. The City is in process of negotiating a lease extension through Sept. 30, 2017, after which, the City will move into a new city hall building.

### ***NOTE 10 – CONTINGENCIES AND LITIGATION:***

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.

The City participates in a number of federal-and-state assisted programs. These grants are subject to audit by the granting agencies and or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management does not believe that such disallowances, if any, will be material.

## Notes to Financial Statements

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### ***NOTE 10 – CONTINGENCIES AND LITIGATION continued:***

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During fiscal year 2003, the City of Spokane Valley acquired 31 acres of land from Spokane County to be used for a city park. After acquisition, it was determined that a concrete company on the adjacent parcel had, at some point in the past, contaminated the property the City was acquiring. The Department of Ecology (DOE) ordered an analysis of the environmental impact and potential options. The concrete company is highly likely, under federal environmental law, to be found solely responsible for cleaning up all of the contaminants. A consent decree and indemnification agreement were agreed to and signed amongst the parties during 2015. These agreements approved the cleanup plan for the site and place the ultimate responsibility for abatement on the concrete company. The City does not currently anticipate incurring any significant expense through the remainder of this process, which is anticipated to be concluded by the end of 2016.

The City, together with other defendants including the County, is a party to a lawsuit where the plaintiffs allege that an auto collision in 2013 resulting in the deaths of two high school students was due to a defective road condition at the intersection where the collision occurred in unincorporated Spokane County. The complaint does not identify a specific amount of damages; however, the notice of claim filed with the City prior to filing the lawsuit requested payment of \$23.9 million. The City and the County deny the allegations, and the potential litigation is in the early stages of discovery. It is unknown at this time when and if the case will go to trial and what the possible outcome may be. If a judgment for damages is entered against the City, the City believes that its insurance policies and/or reserves will be sufficient to cover such damages and is not expected to have a material adverse effect on the City's finances.

In September 2012 the City entered into an interlocal agreement with the Spokane County Library District (Library) for the purpose of acquiring an 8.4 acre parcel of land that would in the future be developed as a joint City park and library. In the agreement the Library agreed to purchase between 2.5 and 3.5 acres of this parcel at a cost that was proportional to the amount of land they held relative to the purchase price. The agreement further provided that the City hold title to the entire 8.4 acre parcel until a joint site development plan was completed and the specific land configuration could be determined for each party.

In October 2012 the City then purchased the 8.4 acre parcel of land at a cost of approximately \$2.5 million and the Library gave the City \$744,047 for its proportional share of the 2.5 acres allocated to their estimated needs. At that time the City recorded the entire \$2.5 million purchase as land owned by the City and the \$744,047 received from the Library as deferred revenue with the understanding that when a joint site development plan was complete the City would recognize the \$744,047 received from the Library as revenue, transfer title for this land to the Library, and remove \$744,047 of land from its capital assets.

In January 2014 the joint site development plan was complete and it was determined that the Library required an additional 0.32 acres of land, bringing their share of the original 8.4 acre purchase up to 2.82 acres. The Library paid the City an additional \$95,238 for the proportional share of the .32 acres relative to the purchase price of the entire 8.4 acre purchase. This brought the Library's share of the land purchase up to a total of 2.82 acres at a cost of \$839,285.

In January 2014 the City declared this 2.82 acres surplus to its needs, transferred title for this land to the Spokane County Library District, recognized \$839,285 as revenue and removed the land from capital assets. The interlocal agreement also provided that if the Library had not within five years following the acquisition of the land (in October 2017), secured voter approval of a construction bond for the library building and ancillary improvements, that the land would be re-conveyed back to the City at the same price paid by the Library (\$839,285).

## Notes to Financial Statements

### NOTE 11 – RECEIVABLE AND PAYABLE BALANCES:

#### A) **Receivables:** Receivables at December 31, 2015, were as follows:

Governmental Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & Other receivables	Deferred outflows	Total receivables
General fund	\$ 1,867,173	\$ 4,347,948	\$ 19,737	\$ -	\$ 131,314	\$ -	6,366,172
Street fund	35,654	499,447	-	-	18,753	-	553,854
Street capital projects fund	51,213	-	2,301,140	-	-	-	2,352,353
City hall construction fund	-	-	-	4,700,000	-	-	4,700,000
Other governmental funds	51,126	279,876	21,422	4,576,000	-	-	4,928,424

*Reconciliation of balances in the  
fund financial statements to  
government-wide financial  
statements*

**Total Governmental  
type activities**

-	-	-	-	260	611,013	611,273
<b>\$ 2,005,166</b>	<b>\$5,127,271</b>	<b>\$2,342,299</b>	<b>\$9,276,000</b>	<b>\$ 150,327</b>	<b>\$611,013</b>	<b>\$19,512,076</b>

Business Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & Other receivables	Deferred outflows	Total receivables
Stormwater management fund	\$ -	\$ 65,129	\$ -	\$ -	467	30,640	\$ 96,236
Aquifer protection area fund	-	-	-	-	-	-	-
<b>Total Business type activities</b>	<b>\$ -</b>	<b>\$ 65,129</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 467</b>	<b>\$ 30,640</b>	<b>\$ 96,236</b>

#### B) **Payables:** Payables at December 31, 2015, were as follows:

Governmental Type Activities	Accounts payables	Salaries & benefits payable	Due to other funds	Deposits payables	Other liabilities	Unearned Revenues	Deferred inflows	Total Payables
General fund	\$ 1,106,501	\$ 428,829	\$ 7,500,000	\$ 556,042	\$ -	\$ 2,630,039	\$ -	\$ 12,221,411
Street fund	427,554	72,283	-	56,476	-	163,281	-	719,594
Street capital projects fund	467,449	25,050	1,400,000	54,530	-	390,474	-	2,337,503
City hall construction fund	51,577	-	-	-	-	-	-	51,577
Other governmental funds	164,708	16,853	376,000	87,639	-	66,705	-	711,905

*Reconciliation of balances in the  
fund financial statements to  
government-wide financial  
statements*

**Total Governmental  
type activities**

1,105	-	-	29,819	(3,250,499)	766,203	(2,453,372)	
\$2,218,894	\$ 543,015	\$ 9,276,000	\$ 754,687	\$ 29,819	\$ -	\$ 766,203	\$13,588,618

Business Type Activities	Accounts payables	Salaries & benefits payable	Due to other funds	Deposits payables	Other liabilities	Unearned Revenues	Deferred inflows	Total
Stormwater management fund	\$ 107,528	\$ 25,631	\$ -	\$ 78,094	\$ 22,830	\$ 61,095	\$ 38,421	\$ 333,599
Aquifer protection area fund	-	-	-	-	-	-	-	-
<b>Total Business type activities</b>	<b>\$ 107,528</b>	<b>\$ 25,631</b>	<b>\$ -</b>	<b>\$ 78,094</b>	<b>\$ 22,830</b>	<b>\$ 61,095</b>	<b>\$ 38,421</b>	<b>\$ 333,599</b>

## Notes to Financial Statements

### **NOTE 11 – RECEIVABLE AND PAYABLE BALANCES** *continued:*

Liability and receivable balances related to settle and adjust estimates as of December 31, 2015, are as follows:

<b>Contract Year</b>	<b>(Liability) or Receivable Balance 1/1/15</b>	<b>New Estimate Made</b>	<b>Amount Settled in 2015</b>	<b>(Liability) or Receivable Balance 12/31/15</b>
2011	\$ (19,763)	\$ -	2,174	\$ (17,589)
2012	(20,848)	-	14,179	(6,669)
2013	(601,827)	-	387,887	(213,940)
2014	764,390	752,892	(635,471)	881,811
2015	-	538,012	-	538,012

For 2014, the City estimated that it would receive a net refund from the County on the contracted services for a total recorded receivable of \$764,390. However, \$449,448 of this amount was deferred and no adjustment to expenditures was recorded due to several of the estimates having a greater amount of uncertainty. During 2015, the City recorded various amounts that were settled on the contracts with the County as is reflected in the table above.

During early 2016, the City was notified that the 2014 Sheriff contract was settled with a result of the County owing the City a refund for overpayment in the amount of \$752,892 as compared to the original receivable of \$338,907 that was estimated at the end of 2014. In order to properly reflect the new balance of the receivable, the City reversed out the original receivable and unearned revenue in the amount of \$338,907 and recorded the new receivable balance and reduction in expenditure in the amount of \$752,892 as of the end of 2015. The settlement will be received by the City throughout 2016 as reflected as a reduction in the amount owed on the Sheriff Law Enforcement contract invoices each month.

For 2015, the City estimated that it would receive a net refund from the County on the contracted services for a total recorded receivable of \$538,012, which was adjusted against the 2015 contract expenditures. Subsequent to year end, the detention services contract for 2015 was settled and the County determined that the City had overpaid for this contract in the amount of \$193,306, which matched the City's recorded estimate for this contract. Although the City did know this portion of the total estimate prior to the issuance of the 2015 financial statements, the County has not settled the remainder of the total estimate for 2015. Therefore, the City elected to report the estimate for 2015 of \$538,012 and will make any necessary adjustments in the financial statements in 2016 based on the amount settled.

### **NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):**

#### **Health & Welfare - Association of Washington Cities Employee Benefit Trust ("Trust")**

In addition to the Public Employee's Pension Plans described in *Note 7*, the City of Spokane Valley is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal

## Notes to Financial Statements

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### ***NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:***

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Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

The Trust provides that contribution requirements of Participating Employer and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

## Notes to Financial Statements

### NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:

<b>Asuris HealthFirst 1000</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 871.51
Non-Medicare enrolled spouse coverage	\$ 879.12
First Child	\$ 246.45
Second Child	\$ 194.90
<b>Asuris HealthFirst 2500</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 760.96
Non-Medicare enrolled spouse coverage	\$ 766.49
First Child	\$ 215.45
Second Child	\$ 170.55
<b>Asuris Plan R-1500</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 1,548.42
Non-Medicare enrolled spouse coverage	\$ 1,554.68
First Child	\$ 440.81
Second Child	\$ 371.01
<b>Asuris Medicare Advantage</b>	<b>Monthly Amounts</b>
Retiree w/ Medicare A&B	\$ 335.33
Spouse w/ Medicare A&B	\$ 335.33
<b>Group Health Retiree</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 1,112.71
Non-Medicare enrolled spouse coverage	\$ 1,080.28
Medicare enrolled retiree coverage	\$ 397.60
Medicare enrolled spouse coverage	\$ 397.60
First dependent	\$ 323.70
Second & all other dependents	\$ 403.48
<b>Delta Dental Retiree</b>	<b>Monthly Amounts</b>
Retiree	\$ 61.54
Retiree + spouse	\$ 125.42
Retiree + child(ren)	\$ 124.57
Retiree + spouse + child(ren)	\$ 187.11

## Notes to Financial Statements

### ***NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:***

Participating employers are not contractually required to contribute to the Trust. The retirees who elect coverage through the Trust pay 100 percent of the premium. As such, the City of Spokane Valley did not have any contributions to the Trust for the year ended December 31, 2015

***Funding Status and Funding Progress:*** The funded status of the AWC Employee Benefits Trust Health Care Program as of January 1, 2015, which was the date of the last actuarial valuation, was as follows (*dollars in thousands*):

Actuarial accrued liability (AAL)	\$	5,911
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	5,911
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	N/A	<sup>1</sup>
UAAL as a percentage of covered payroll	N/A	<sup>1</sup>

*Covered Payroll information was not provided to the AWC Trust.*

The schedule of funding progress is also presented as *required supplementary information* (RSI) following these Notes to the Financial Statements, and the schedule presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The AWC Employees Benefits Trust had substantial assets recorded as of December 31, 2015. *Because those assets have not been placed into an irrevocable trust for the sole purpose of providing the above OPEB benefits, the AWC understands that they cannot be reflected as “actuarial assets” in the precedent table under GASB 43 in determining the remaining values for this Trust.*

The AWC Employee Benefits Trust’s annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 will be determined with the next conducted biennial actuarial analyses scheduled for January 1, 2016, the reported years of 2009 thru 2010, and 2012 and 2014 to 2015 were as follows (*dollars in thousands*):

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2009	\$ 29,872	7.86%	\$ 55,364
12/31/2010	27,892	4.42%	82,022
12/31/2012	12,885	7.77%	130,474
12/31/2013	11,858	9.20%	141,241
12/31/2014	1,273	61.19%	34,407
12/31/2015	83 <sup>1</sup>	310.89% <sup>1</sup>	5,911

1) Adjustments to Net OPEB Obligation reported

## Notes to Financial Statements

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### ***NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:***

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The Governmental Accounting Standards Board (GASB) reporting standards and Statements numbers 43 & 45 mandates the precedent reporting requirements and disclosures for Postemployment Benefits Plan other than Pension Plans, or OPEB. The AWC has chosen to adopt and provide these reporting standards to the participating employers within the AWC Employee Benefits Trust. Also, it is important to note that only those jurisdictions that follow Generally Accepted Accounting Principles (GAAP) must comply and report under GASB Statements 43 and 45. All costs, liabilities, interest rates, and other factors have been determined on the basis of actuarial assumptions and methods which are individually reasonable, taking into account experience and reasonable expectations, and which combinations offer the best estimate of anticipated experience.

### ***NOTE 13 – SUBSEQUENT EVENTS:***

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The City of Spokane Valley has begun planning for the future development of a new City Hall building. Toward that purpose, the City purchased a 3.38 acre parcel of land on the former University City Mall site at a cost of approximately \$1,157,000 in January of 2015 and contracted with Architects West in April of 2015 for design of the new building in the amount of \$996,700. Design of the building and site continued through the rest of 2015, and on February 23, 2016, Council approved the final design plans for the project. The City Hall project went to bid on March 18, 2016, and Council awarded the construction contract to Meridian Construction in the amount of \$10,590,315 on May 3, 2016, bringing the total project cost including land acquisition, design, construction, equipment and furnishings to 14,148,281.

Of the total project cost of \$14,148,281, approximately \$6.3 million will be covered by cash set aside by the City specifically for that purpose. The remainder of approximately \$7.8 million will be funded through the net proceeds of limited tax general obligation bonds (the 2016 Bonds). The Council authorized the City Manager to proceed with issuance of 2016 Bonds on May 10, 2016, through approval of Ordinance 16-006. The 2016 Bonds closed on June 2, 2016, and the City received bond proceeds of \$7,946,088, reflecting a par value of \$7,275,000 and a bond premium of \$671,088, net bond issue costs of \$96,515.

City Manager Mike Jackson resigned on April 27, 2016, at the request of City Council. This resignation was given under the terms of a separation and release agreement that provided Mr. Jackson severance in the amount of \$411,115.66, including cash compensation and benefits paid on his behalf.

Councilmember Dean Grafos submitted his resignation from City Council effective April 25, 2016, and Councilmember Charles Hafner submitted his resignation from City Council effective May 2, 2016. Replacements for these two Council positions were appointed in June of 2016 by the remaining members of Council.

In June of 2016, the Spokane County Library District passed resolution 16-05 declaring it will not present a ballot issue to the public for a new library in Spokane Valley before 2018 and resolution 16-06 invoking the provision in the 2012 contract with the City of Spokane Valley for the City to repurchase property owned by the Library District. As of the date of the issuance of the financial statements, the interlocal agreement between the City and the District as discussed in note 10 is still in effect, and the City and District are in discussions regarding this topic. See note 10 for additional details.



# City of Spokane Valley, Washington

## Comprehensive Annual Financial Report - Fiscal Year 2015

### Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget to Actual

General Fund, Major Fund

For the Year Ended December 31, 2015

	Budgeted Amounts			Variance with Final Budget <sup>1</sup> Over (Under)
	Approved	Final	Actual	
	Original Budget	Amended Budget		
<b><u>Revenues</u></b>				
Taxes	\$ 31,730,100	\$ 31,640,900	\$ 32,281,429	\$ 640,529
Licenses and permits	2,202,700	2,110,700	2,260,035	149,335
Intergovernmental revenues	1,816,400	1,816,400	2,089,795	273,395
Charges for services	1,158,800	1,158,800	1,313,700	154,900
Fines and forfeitures	609,400	609,400	530,393	(79,007)
Investment interest	70,000	70,000	81,969 <sup>1</sup>	11,969
Miscellaneous	771,700	771,700	712,514	(59,186)
<i>Total Revenues</i>	<u>38,359,100</u>	<u>38,177,900</u>	<u>39,269,835</u>	<u>1,091,935</u>
<b><u>Expenditures</u></b>				
Current:				
General government	4,950,715	4,974,015	4,538,534	(435,481)
Public safety	24,315,492	24,324,392	22,045,257	(2,279,135)
Utilities and physical environment	2,302,816	2,302,816	1,932,174	(370,642)
Economic environment	360,000	360,000	339,757	(20,243)
Community development	2,379,314	2,234,314	2,070,699	(163,615)
Culture and recreation	2,796,345	2,816,770	2,787,974	(28,796)
Debt service:				
Interest expense	-	-	425	425
Capital Outlay:				
Capital expenditures	1,192,300	497,000	437,084	(59,916)
Construction in progress	-	-	10,600	10,600
<i>Total Expenditures</i>	<u>38,296,982</u>	<u>37,509,307</u>	<u>34,162,504</u>	<u>(3,346,803)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>62,118</u>	<u>668,593</u>	<u>5,107,331</u>	<u>4,438,738</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	83,100	123,525	123,525	-
Transfers (out)	(1,684,300)	(3,750,687)	(3,750,720)	33
<i>Total Other Financing Sources (Uses)</i>	<u>(1,601,200)</u>	<u>(3,627,162)</u>	<u>(3,627,195)</u>	<u>33</u>
<i>Net Change in Fund Balances (deficit)</i>	<u>(1,539,082)</u>	<u>(2,958,569)</u>	<u>1,480,136</u> <sup>1</sup>	<u>4,438,706</u>
<i>Fund Balances Beginning of Year:</i>	<u>30,327,097</u>	<u>30,327,097</u>	<u>30,327,097</u> <sup>1</sup>	<u>-</u>
<i>Fund Balances End of Year:</i>	<u>\$ 28,788,015</u>	<u>\$ 27,368,528</u>	<u>\$ 31,807,233</u> <sup>1</sup>	<u>\$ 4,438,706</u>

<sup>1</sup> While applying the GASB-54 reporting standard, total fund balance end of the year increased by \$1,480,135, the net change in fund balances of \$1,471,546, increased by \$8,590 due to investment interest and rounding of +1, resulting in an increase of \$1,480,136 to beginning fund balance from the two combined Non-major Special Revenue Funds; as reported in the General Fund on the Statement of Rev, Expend, and Changes in Fund Balances.

# City of Spokane Valley, Washington

## Comprehensive Annual Financial Report - Fiscal Year 2015

*Schedule of Revenues, Expenditures and Changes in Fund Balances*

*Budget and Actual*

*Street Fund, Major Fund*

*For the Year Ended December 31, 2015*

	Budgeted Amounts				Variance with Final Budget Over (Under)
	Approved Original Budget	Final Amended Budget	Actual		
<b>Revenues</b>					
Taxes	\$ 2,565,100	\$ 2,565,100	\$ 2,257,184	\$	(307,916)
Intergovernmental revenues	1,859,900	1,859,900	1,935,629		75,729
Charges for services	-	-	11,200		11,200
Investment interest	3,000	3,000	3,212		212
Miscellaneous	10,000	10,000	13,967		3,967
<i>Total Revenues</i>	4,438,000	4,438,000	4,221,192		(216,808)
<b>Expenditures</b>					
Current:					
Utilities and physical environment	190,000	190,000	102,377		(87,623)
Transportation	4,001,682	4,001,682	3,978,815		(22,867)
Debt Service:					
Principal retirement	-	-	-		-
Capital Outlay:					
Capital expenditures	53,000	53,000	31,894		(21,106)
Construction in progress	-	-	-		-
<i>Total Expenditures</i>	4,244,682	4,244,682	4,113,086		(131,596)
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	193,318	193,318	108,106		85,212
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-		-
Transfers (out)	(246,318)	(246,318)	(370,273)		123,955
<i>Total Other Financing Sources (Uses)</i>	(246,318)	(246,318)	(370,273)		123,955
<i>Net Change in Fund Balances (deficit)</i>	(53,000)	(53,000)	(262,167)		(209,167)
<i>Fund Balances Beginning of Year</i>	1,705,244	1,705,244	1,705,244		-
<i>Fund Balances End of Year (Deficit)</i>	\$ 1,652,244	\$ 1,652,244	\$ 1,443,077	\$	(209,167)

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

City of Spokane Valley Schedule of Proportionate Share of Net Pension Liability PERS 1 For the Year Ended December 31, 2015	
	Fiscal Year 2015
Employer's proportion of the net pension liability (asset)	0.052995%
Employer's proportionate share of the net pension liability	\$ 2,772,131
Total	\$ 2,772,131
Employer's covered employee payroll	\$ 6,520,390
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	42.51%
Plan fiduciary net position as a percentage of the total pension liability	59.10%
Provided from note 2 of DRS Participating Employer Financial Information report (PEFI) for the % of each plan. <sup>1</sup>	

City of Spokane Valley Schedule of Proportionate Share of Net Pension Liability PERS 2/3 For the Year Ended December 31, 2015	
	Fiscal Year 2015
Employer's proportion of the net pension liability (asset)	0.068456%
Employer's proportionate share of the net pension liability	\$ 2,445,972
Total	\$ 2,445,972
Employer's covered employee payroll	6,520,390
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	37.51%
Plan fiduciary net position as a percentage of the total pension liability	89.20%
Provided from note 2 of DRS Participating Employer Financial Information report (PEFI) for the % of each plan. <sup>1</sup>	

<sup>1</sup> Measurement date of June 30, 2015, for the State sponsored pension plans.  
The notes to the financial statements are an integral part of this schedule.

**City of Spokane Valley, Washington**  
**Comprehensive Annual Financial Report - Fiscal Year 2015**

<b>City of Spokane Valley</b> <b>Schedule of Employer Contributions</b> <b>PERS 1 (one year trend) <sup>1</sup></b> <b>For the Year Ended December 31, 2015</b>	
	<b>Fiscal Year 2015</b>
<b>Statutorily or contractually required contributions</b>	<b>\$ 274,474</b>
<b>Contributions in relation to the statutorily or contractually required contributions</b>	<b>\$ (274,474)</b>
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>
<b>Covered employee payroll</b>	<b>\$ 6,520,390</b>
<b>Contributions as a percentage of covered employee payroll</b>	<b>4.21%</b>
<b>City of Spokane Valley does "not" currently have active PERS 1 pension plan participants. As such, PERS 1 contributions represent the Unfunded Actuarial Liability (UAAL) as calculated by The Department of Retirement Systems.</b>	

<b>City of Spokane Valley</b> <b>Schedule of Employer Contributions</b> <b>PERS 2/3 (one year trend) <sup>1</sup></b> <b>For the Year Ended December 31, 2015</b>	
	<b>Fiscal Year 2015</b>
<b>Statutorily or contractually required contributions</b>	<b>\$ 352,459</b>
<b>Contributions in relation to the statutorily or contractually required contributions</b>	<b>\$ (1,007,229)</b>
<b>Contribution deficiency (excess)</b>	<b>\$ (654,770)</b>
<b>Covered employee payroll</b>	<b>\$ 6,520,390</b>
<b>Contributions as a percentage of covered employee payroll</b>	<b>5.41%</b>
<b><sup>1)</sup> Until a full 10-year trend can be compiled, one year trend information is presented for the PERS 2/3 pension plan as of 12/31/2015.</b>	

**City of Spokane Valley**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Expenditures				Note
			Other Award Number	From Pass- Through Awards	From Direct Awards	Total	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Spokane County Housing and Community Development Department)	Community Development Block Grants/Entitlement Grants	14.218	CDBG14-13	261,794	-	261,794	1 2 3
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0261	-	19,170	19,170	1 2 3
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0545	-	19,737	19,737	1 2 3
<b>Total CFDA 16.738:</b>			-	-	<b>38,907</b>	<b>38,907</b>	-
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	CM-4041(014)	685,841	-	685,841	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL- 4132(001)	32,832	-	32,832	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL- 4039(003)	15,372	-	15,372	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	CM-9932(040)	6,542	-	6,542	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	BRM-4103(007)	3,854,388	-	3,854,388	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	CM-1223(002)	60,706	-	60,706	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL- 9932(042)	2,458	-	2,458	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL- 9932(045)	16,722	-	16,722	1 2 3

Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	HSIP-0027(013)	50,320	-	50,320	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	HSIP-000S(326)	256,287	-	256,287	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-9932(049)	2,351	-	2,351	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-3840(010)	2,342	-	2,342	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-4103(006)	8,519	-	8,519	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-4103(010)	788,542	-	788,542	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	CM-1223(003)	32,139	-	32,139	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	HSIP-4083(003)	6,506	-	6,506	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-1223(004)	1,560	-	1,560	-	1 2 3
Federal Highway Administration (fhwa), Department Of Transportation (via WA Dept of Transportation)	Highway Planning and Construction	20.205	STPUL-3852(001)	6,020	-	6,020	-	1 2 3
<b>Total Highway Planning and Construction Cluster:</b>				<b>5,829,447</b>	-	<b>5,829,447</b>	-	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	NA	9,797	-	9,797	-	1 2 3
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA St. Traffic Safety Commission)	National Priority Safety Programs	20.616	NA	714	-	714	-	1 2 3
<b>Total Highway Safety Cluster:</b>				<b>10,511</b>	-	<b>10,511</b>	-	
<b>Total Federal Awards Expended:</b>				<b>6,101,752</b>	<b>38,907</b>	<b>6,140,659</b>	-	

## City of Spokane Valley

### Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2015

Notes 1, 2 and 3 are required for all entities. Disclose other notes only if applicable to the government's circumstances.

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Spokane Valley financial statements. The City of Spokane Valley uses the accrual basis of accounting for all funds except for the governmental funds which use the modified accrual basis of accounting.

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, may be 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 – Indirect Cost Rate

The City does not record indirect costs and has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 4 – Return of Federal Funds

In 2015, the City returned \$9,851.49 in indirect federal grant funds for CFDA 20.205 to the Washington State Department of Transportation. These funds had been awarded for use in the Spokane Valley - Millwood Trail project. However, due to ownership issues with the land on which the trail was to be built, the City could not pursue the project and therefore requested the project be terminated and the grant funds returned.

## 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>