



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

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

## **City of Vancouver**

**Clark County**

**For the period January 1, 2017 through December 31, 2017**

**Published August 23, 2018**

**Report No. 1021894**





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

August 23, 2018

Mayor and City Council  
City of Vancouver  
Vancouver, Washington

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Vancouver  
Clark County  
January 1, 2017 through December 31, 2017**

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

The results of our audit of the City of Vancouver 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

- *Material Weaknesses:* We identified 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 Cluster – Highway Planning and Construction
20.224	Highway Planning and Construction Cluster – Federal Lands Access Program

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**

See finding 2017-001.

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

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Vancouver Clark County January 1, 2017 through December 31, 2017

#### **2017-001 The City's internal controls over accounting and financial preparation were not adequate to ensure accurate and complete financial reporting.**

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

City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Our audit identified a material weakness in internal controls over financial reporting that resulted in errors in the City's financial statements.

*Government Auditing Standards* requires that the auditor communicate a material weakness in internal controls as a finding.

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

The City owns and operates two parking garages in downtown Vancouver. In the prior audit, we identified concerns with the useful life used to depreciate the parking garages. During 2017, the City determined the garages were assigned an incorrect useful life and made corrections. The City's internal controls did not identify the incorrect life had been assigned when the garages were placed in service nor was there a process in place to periodically reassess the estimate to ensure useful lives assigned were reasonable and make adjustments as necessary.

In addition, the City classifies the fund balance of governmental funds based on the internal or external restrictions placed on those resources. The City did not assess fund balances at year-end to ensure classifications were supported and accurate based on applicable restrictions.

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

In recent years, the City had begun reviewing its capital asset records and making adjustments when applicable. The City was aware of the need to evaluate and reassess useful lives, but it did not dedicate sufficient resources to ensure these estimates were accurate and periodically reevaluated.

Additionally, the City experienced turnover in its accounting department. Current staff were unable to provide support for the evaluation of fund balance classifications.

### ***Effect of Condition***

In response to our prior audit recommendation, the City evaluated the useful lives assigned to its parking garages and changed its assessment from 20 years to 40 years to align with the City's policy for similar asset types. This resulted in a material prior period adjustment of \$5,902,116 within the Parking Fund to reverse previously recorded depreciation.

In addition, the City was unable to provide support for fund balance classifications for several governmental funds. However, classifications appear reasonable given our understanding of the fund revenues.

### ***Recommendation***

We recommend the City improve internal controls over the financial statement preparation process to ensure amounts reported are supported and accurate. We specifically recommend the City:

- Dedicate adequate resources to review capital asset useful lives to ensure they are reasonable, and ensure periodic reassessments are performed to identify changes in useful lives as needed.
- Perform an evaluation of ending fund balances to ensure classifications are supported and in line with applicable criteria.

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

*The City is dedicated to providing accurate and complete financial reports and to the continual improvement of its internal controls. The City made a prior period adjustment based upon the external auditor recommendations resulting from the prior audit to correct a previous misstatement in asset useful life that did not correspond with the City's policy related to asset depreciation. The asset in question is the City's Vancouver Center parking garage. The depreciation schedule was set once the asset was constructed in 2003. The external auditors pointed out life of the asset as being too short during the 2016 audit. The city promptly addressed the issue by making a corrective entry in early 2017 that increased the useful life of the asset from 20 years to 40 years, consistent with the anticipated useful life of other buildings and addressing the auditor's concerns. No other step related to the asset in question is necessary at this point.*

*The City is currently developing a re-evaluation process and cycle for depreciable asset useful lives, which will be established during 2018 and commence no later than 2019. Additionally, the City's new financial system Workday, once implemented in 2019, will help to automate annual re-evaluation process and cycle for depreciable asset useful lives.*

*The City reported fund balances of governmental funds correctly in their totality by fund in the City's financial statements. The City is developing tools and will update its processes to document its calculation of fund balance classifications between non-spendable, restricted, committed, assigned and unassigned balances categories for all funds. This will be completed by December 31, 2018.*

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

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

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

- RCW 43.09.200 Local government accounting – Uniform system of accounting
- *Budgeting, Accounting and Reporting Systems Manual* – Accounting, Accounting Principles and General Procedures, Internal Control
- *Government Auditing Standards*, December 2011 Revision, paragraph 4.23
- The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265
- Governmental Accounting Standards Board, Statement, No. 34, paragraph 75-76
- Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16 – Audit Reporting, paragraph 53



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Vancouver  
Clark County  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Vancouver  
Vancouver, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 25, 2018. As described in Note IV to the financial statements, the City's 2016 financial statement have been restated to correct a misstatement.

Our report includes a reference to other auditors who audited the financial statements of the Vancouver Hotel and Convention Center Project, (the Project) which is included in the City's financial information as part of the Vancouver Downtown Redevelopment Authority component unit, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the auditors. The financial statements of the Project were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the Project.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

## COMPLIANCE AND OTHER MATTERS

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

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

## CITY'S RESPONSE TO FINDINGS

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

## PURPOSE OF THIS REPORT

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

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Pat McCarthy  
State Auditor  
Olympia, WA

July 25, 2018

**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 Vancouver  
Clark County  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Vancouver  
Vancouver, Washington

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

We have audited the compliance of the City of Vancouver, Clark County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2017. 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, 2017.

## **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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 25, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Vancouver Clark County January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Vancouver  
Vancouver, Washington

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 19.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Vancouver Hotel and Convention Center Project, which is included in the City's financial information as part of the Downtown Redevelopment Authority component unit and which represents 1.6 percent, 6.6 percent, 100 percent and 85.6 percent respectively, of the assets and deferred outflows, net position, operating revenues, and operating expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the Vancouver Hotel and Convention Center Project, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Vancouver Hotel and Convention Center Project were not audited in accordance with *Government Auditing Standards*.

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

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

## **Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vancouver, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Consolidated Fire, and Street funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis Regarding Correction of Prior Year Misstatement**

As discussed in Note IV to the financial statements, the City's 2016 financial statements have been restated to correct a misstatement. 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 and required supplementary information listed on page 19 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 July 25, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 25, 2018

## FINANCIAL SECTION

**City of Vancouver  
Clark County  
January 1, 2017 through December 31, 2017**

### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of the Balance Sheet of the Governmental Funds to the Government Wide  
Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Government Wide Statement of Activities –  
2017

Statement of Revenues, Expenditures, and Change in Fund Balances Compared to  
Budget (GAAP Basis) and Actual – General Fund – 2017

Statement of Revenues, Expenditures, and Change in Fund Balances Compared to  
Budget (GAAP Basis) and Actual – Consolidated Fire Fund – 2017

Statement of Revenues, Expenditures, and Change in Fund Balances Compared to  
Budget (GAAP Basis) and Actual – Street Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Basic Financial Statements – 2017

## **REQUIRED SUPPLEMENTARY INFORMATION**

Police and Fire OPEB Pension Funds – Schedule of Funding Progress – 2017  
State Sponsored PERS Plans – Schedule of Proportionate Share of Net Pension Liability – 2017  
State Sponsored LEOFF Plans – Schedule of Proportionate Share of Net Pension Liability – 2017  
State Sponsored PERS Plans – Schedule of Employer Contributions – 2017  
State Sponsored LEOFF Plans – Schedule of Employer Contributions – 2017  
Notes to Required Supplemental Information – Pension – All Multi-Employer State Sponsored Plans – 2017  
Single Employer – Fire Pension Trust Fund – Schedule of Changes in Net Pension Liability and Related Ratios – 2017  
Single Employer – Police Pension Trust Fund – Schedule of Changes in Net Pension Liability and Related Ratios – 2017  
Single Employer Police and Fire Pension Trust Funds – Schedule of Investment Returns – 2017  
Notes to Required Supplemental Information – Police and Fire Pension Trust Funds – 2017

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017  
Notes to the Schedule of Expenditures of Federal Awards – 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is a narrative overview of the City of Vancouver's (the City's) financial activities for the fiscal year ended December 31, 2017. The information presented here should be read in conjunction with the letter of transmittal, the financial statements, and the related notes to the financial statements.

### FINANCIAL HIGHLIGHTS

- City of Vancouver assets and deferred outflows exceeded its liabilities and deferred inflows at December 31, 2017, by over \$1.2 billion.
- Net investment in capital assets accounts for 79.0% of the total net position, with a value of \$973.7 million.
- Of the remaining net position, \$172.3 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net position showed an increase of \$98.7 million from current operations in 2017. This includes a \$104.3 million change in net position less prior period adjustments of \$5.6 million, which is further explained in detail in Note IV.
- Total program revenues were \$198.6 million in 2017, which represents an increase in Charges for Services, Fees, Fines and Forfeitures of \$8.0 million and Operating and Capital Grants and Contributions of approximately \$13.1 million respectively for a net increase in total program revenues from 2016 of \$21.1 million.
- Program expenses were \$287.9 million, up \$24.0 million from 2016.
- General revenues, special items and transfers were \$193.6 million, up by \$58.5 million from last year.
- As of December 31, 2017, the City of Vancouver's governmental funds reported combined ending fund balances of \$161.5 million, which was \$5.2 million less than the prior year. Approximately 63.7% of this total amount, or \$102.9 million, is available for spending at the government's discretion. The unassigned fund balance for the General Fund was \$9.8 million at December 31, 2017.
- The City of Vancouver's total bonded debt at December 31, 2017, was \$94.9 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Basic Financial Statements

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

#### Government-wide Financial Statements

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

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

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

**The Statement of Activities** presents information showing how the government's revenues and expenses impacted net position during 2017. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent to which each program relies on general revenue for funding. All changes in net position are reported using the accrual basis of accounting which requires that revenues are reported when they are earned and expenses are reported as soon as liabilities are incurred.

The City has identified four entities as component units in the government-wide financial statements. When there is financial activity to report, three of these entities will be shown in the government-wide financial statements as discretely presented component unit funds. These entities are the Vancouver Downtown Redevelopment Authority (DRA), Vancouver Public Facilities District (PFD) and City Center Redevelopment Authority (CCRA). The fourth component unit, Vancouver Transportation Benefit District (TBD), is treated as a blended component unit presented as a special revenue fund. For additional information, see Note I.A and Note IV.A. The City has also reported two jointly governed organizations: Clark Regional Emergency Services Agency (CRESA) and Council for the Homeless; see Note IV.C for additional information on these organizations.

## **Fund Financial Statements**

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

## **Governmental Funds**

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

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

To get a longer term perspective of financial balances and results of operations, the City presents full accrual information in the government wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

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

## **Proprietary Funds**

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

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

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

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

## **Fiduciary Funds**

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

## Notes to the Financial Statements

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

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Vancouver's progress in funding its obligations to the citizenry and its employees. Required supplementary information can be found beginning on page 91 of this report.

The aggregated statements for *nonmajor* governmental and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 103 - 160 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Analysis of Net Position

As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. The City of Vancouver's net position totals \$1,232,778,468 at December 31, 2017. The following is a condensed and comparative version of the Government-Wide Statement of Net Position.

#### City of Vancouver's Net Position

	Governmental Activities		Business-type Activities		Total Activities	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 252,628,828	\$ 262,408,397	\$ 114,091,412	\$ 115,346,191	\$ 366,720,240	\$ 377,754,588
Capital assets (net of accumulated depreciation)	613,130,182	683,108,097	360,250,500	383,509,553	973,380,682	1,066,617,650
<b>TOTAL ASSETS</b>	<b>865,759,010</b>	<b>945,516,494</b>	<b>474,341,912</b>	<b>498,855,744</b>	<b>1,340,100,922</b>	<b>1,444,372,238</b>
 DEFERRED OUTFLOWS OF RESOURCES	 12,655,126	 8,387,859	 4,025,222	 2,690,783	 16,680,348	 11,078,642
Long-term liabilities	149,669,045	142,525,746	50,088,434	37,846,220	199,757,479	180,371,966
Other liabilities	16,808,070	23,832,502	5,045,174	7,538,073	21,853,244	31,370,575
<b>TOTAL LIABILITIES</b>	<b>166,477,115</b>	<b>166,358,248</b>	<b>55,133,608</b>	<b>45,384,293</b>	<b>221,610,723</b>	<b>211,742,541</b>
 DEFERRED INFLOWS OF RESOURCES	 767,159	 8,902,337	 290,075	 2,027,534	 1,057,234	 10,929,871
 <b>NET POSITION</b>						
Net investment in capital assets	536,394,326	612,778,399	330,000,983	360,952,055	866,395,309	973,730,454
Restricted	48,397,041	80,533,806	10,499,864	6,223,731	58,896,905	86,757,537
Unrestricted	126,378,495	85,331,563	82,442,604	86,958,914	208,821,099	172,290,477
<b>TOTAL NET POSITION</b>	<b>\$ 711,169,862</b>	<b>\$ 778,643,768</b>	<b>\$ 422,943,451</b>	<b>\$ 454,134,700</b>	<b>\$ 1,134,113,313</b>	<b>\$ 1,232,778,468</b>

During 2017, the City's total assets increased \$104.3 million and deferred outflows of resources decreased \$5.6 million, while total liabilities decreased \$9.9 million and deferred inflows of resources increased \$9.9 million, primarily related to the continued impacts of the GASB 68 implementation effective December 31, 2015. The net result is an increase in total net position of \$98.7 million, or 8.7%.

Of the City's total assets, cash increased by \$9.0 million and restricted cash decreased \$4.3 million respectively; receivables increased \$522 thousand, capital assets increased \$93.2 million, and other assets increased \$5.8 million from 2016.

The largest portion of the City's net position, 79.0%, reflects its investment in capital, less any related debt still outstanding that was used to acquire those assets. The City's capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Net position representing resources that are subject to external restrictions on how they may be used is 7.0% of the total, and net position that is unrestricted represents the remaining 14.0%.

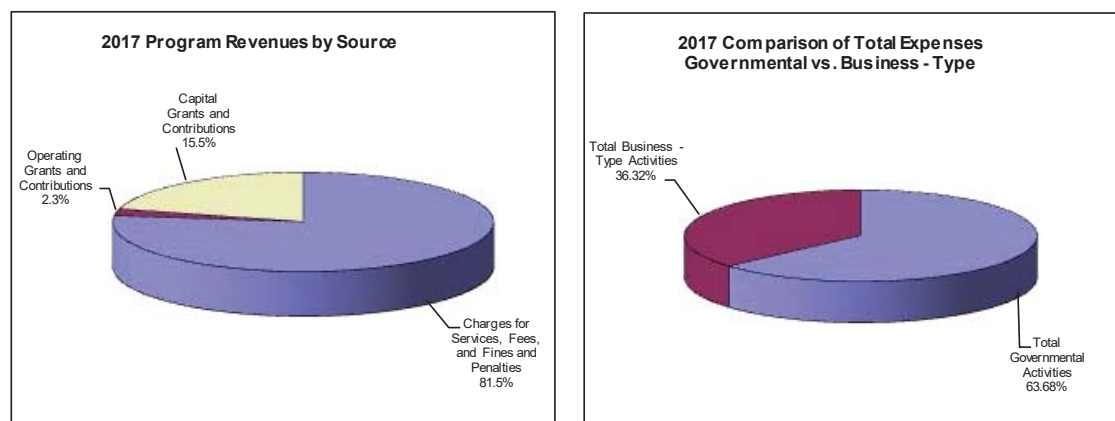
At December 31, 2017, the City of Vancouver reports positive balances in all three categories of net position, for the government as a whole.

## Analysis of Changes in Net Position

Total net position increased in 2017 by \$98.7 million, inclusive of the impact of prior period adjustments. This is split between governmental increase of \$67.5 million and business-type activities increase of \$31.2 million. The Statement of Activities depicts the relationship of revenues and expenses for the City's governmental activities and proprietary funds. A condensed and comparative version of the Statement of Activities is shown below.

Summary of Changes in Net Position						
Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Program revenues:						
Charges for Services, Fees, and Fines and Forfeitures	\$ 45,645,162	\$ 44,488,750	\$ 99,125,136	\$ 108,300,374	\$ 144,770,298	\$ 152,789,124
Operating Grants and Contributions	5,100,251	4,370,857	58,712	240,219	5,158,963	4,611,076
Capital Grants and Contributions	12,356,046	26,653,998	15,239,725	14,579,884	27,595,771	41,233,882
General Revenues						
Property Taxes Levied for General Purposes	44,748,153	52,791,146	-	-	44,748,153	52,791,146
Sales and Use Taxes	36,737,708	40,357,473	-	-	36,737,708	40,357,473
Utility, Excise, Lodging and Other Taxes	50,635,405	57,312,088	-	-	50,635,405	57,312,088
Unrestricted Investment Earnings	1,153,032	2,107,348	621,849	1,043,201	1,774,881	3,150,549
Miscellaneous	943,395	640,154	266,296	794,406	1,209,691	1,434,560
Total Revenues	197,319,152	228,721,814	115,311,718	124,958,084	312,630,870	353,679,898
Program Expenses						
Governmental Activities:						
General Government	22,021,008	20,209,275	-	-	22,021,008	20,209,275
Security/Persons & Property	87,571,127	95,626,705	-	-	87,571,127	95,626,705
Physical Environment	569,307	696,060	-	-	569,307	696,060
Transportation	32,490,781	40,884,091	-	-	32,490,781	40,884,091
Mental and Physical Health	405,415	466,762	-	-	405,415	466,762
Economic Environment	9,867,567	10,495,402	-	-	9,867,567	10,495,402
Culture and Recreation	11,454,546	11,123,786	-	-	11,454,546	11,123,786
Interest on Long-Term Debt	3,736,146	2,924,804	-	-	3,736,146	2,924,804
Business-Type Activities:						
Water Sewer	-	-	83,501,555	92,720,005	83,501,555	92,720,005
Parking	-	-	2,988,359	2,945,303	2,988,359	2,945,303
Airport	-	-	846,241	836,199	846,241	836,199
Building Inspection	-	-	5,203,294	5,405,890	5,203,294	5,405,890
Solid Waste	-	-	2,251,120	2,522,823	2,251,120	2,522,823
Tennis Center	-	-	1,083,235	1,087,504	1,083,235	1,087,504
Total Expenses	168,115,898	182,426,885	95,873,804	105,517,724	263,989,702	287,944,609
Excess (deficiency) of revenues over expenses	29,203,254	46,294,929	19,437,914	19,440,360	48,641,168	65,735,289
Transfers - Governmental	(1,343,588)	(448,225)	-	-	(1,343,588)	(448,225)
Transfers - Business-Type	-	-	1,343,588	448,225	1,343,588	448,225
Income (loss) before special & extraordinary items	27,859,666	45,846,704	20,781,502	19,888,585	48,641,168	65,735,289
Special Items:						
Annexation	-	34,574,972	-	3,942,708	-	38,517,680
Total Special Items	-	34,574,972	-	3,942,708	-	38,517,680
Change in Net Position	27,859,666	80,421,676	20,781,502	23,831,293	48,641,168	104,252,969
Net Position- Beginning	682,248,901	711,169,862	406,878,926	422,943,451	1,089,127,827	1,134,113,313
Prior year adjustments	1,061,295	(12,947,770)	(4,716,977)	7,359,956	(3,655,682)	(5,587,814)
Net Position - Ending	\$ 711,169,862	\$ 778,643,768	\$ 422,943,451	\$ 454,134,700	\$ 1,134,113,313	\$ 1,232,778,468

The following graphs illustrate the sources of revenue and the balance of governmental vs. business type expenses for 2017.





## Governmental Activity Analysis

Governmental net position increased by \$80.4 million in 2017 from operations. This was decreased by prior year adjustments of \$12.9 million.

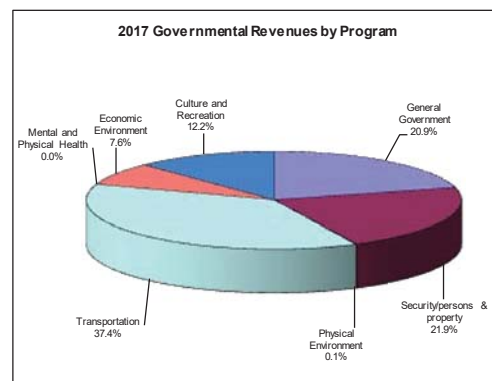
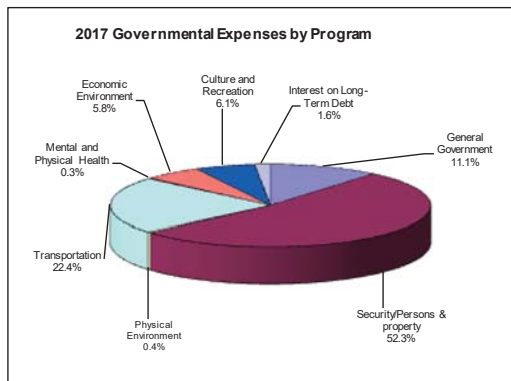
Revenues from Charges for Services, Fees, and Fines and Forfeitures decreased from 2016 by \$1.2 million, or 2.5%; while revenues from taxes increased by \$18.3 million, or 13.9%. A continued improving local economy combined with a utility tax increase in October 2016 is the driving force behind the tax increase. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation plus new constructions. Total governmental activities revenues increased \$31.4 million, or 15.9%, including an increase of \$14.3 million, or 115.7%, in revenues associated with Capital Grants and Contributions received by the City in 2017 compared to 2016.

In 2016, the Vancouver City Council identified Van Mall North as an area ready for annexation. It is located in Vancouver's Urban Growth Area (UGA), and was slated for annexation by the City and County in the Annexation Blueprint Plan (2007). Annexation of Van Mall North was underway in 2008, when all annexation activities were halted due to the economic recession. It resumed and was completed August 1, 2017. The Van Mall North area is already served by City of Vancouver water, sewer and emergency fire services. The City acquired capital property (assets) relating to the annexation, which is reported as a special item on the Summary of Changes in Net Position. The net book value of the total assets acquired from Clark County in the annexation, totaled \$38.8 million, of which \$34.9 million was reported in the governmental activities. The City recorded \$344 thousand in liabilities related to the annexation. Also see comment in Business-Type Activities Analysis below. Additional details on this annexation can be found in Note IV.J and on the City's website through this link <https://www.cityofvancouver.us/ced/page/van-mall-north-annexation>.

The prior year adjustments of \$12.9 million reported in the governmental activities comprised a correction of \$10.7 million in investment in joint venture incorrectly reported as an asset in prior years and \$2.2 million to record a transfer of storm infrastructure constructed by the Transportation department (a governmental fund) to the Water Sewer department (business fund) in 2016. For additional information see Note 4.K.

Governmental activities expenses increased in total by \$14.3 million, or 8.5%. The major influencing factors of this increase are as follows:

- Security/Persons and Property expense increased due to increased personnel costs within the police and fire departments, along with an increase in supplies including protective clothing and minor tools and equipment, as well as an increase in the indirect cost allocation for police.
- The increase in Transportation expense was due to increased personnel costs, repairs and maintenance, operating supplies, and professional services related to construction projects.

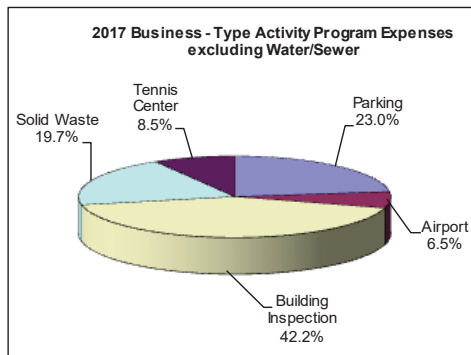
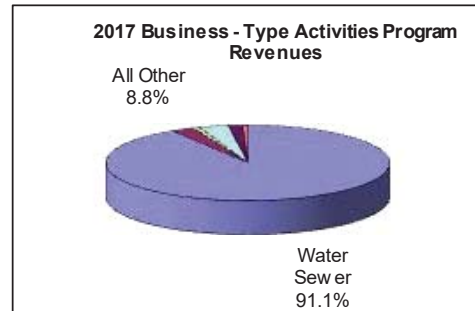
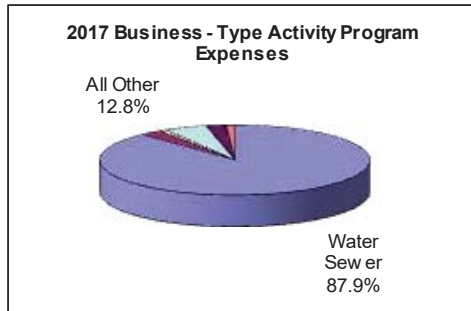


## Business-Type Activities Analysis

Business-type net position increased by \$23.8 million in 2017 from operations, and was further increased by prior year adjustments of \$7.4 million.

The Business-Type Activity revenue and expenses in total increased by \$9.6 million and \$9.6 million, respectively. As depicted in the graphs that follow, the Water/Sewer activity is the largest business-type activity in the City. As a result, the financial position of the City's business-type activities is strongly influenced by the Water/Sewer activity. This year, Water/Sewer had an \$8.1 million increase in operating revenue and a \$9.6 million increase in operating expenses. Revenue increased primarily from the increase in water and sewer rates by an average of 3.0% to 5.0% from 2016, along with an increase in usage. Water and sewer expenses increased as a result of increase in taxes on utilities both at the state and local level, along with an increase in professional services relating to the increased cost of treatment plant operations and maintenance projects performed throughout the year.

Other business-type activities had moderate increases in expenses, including the Building Inspection fund increase of \$203 thousand, and the Solid Waste fund at \$272 thousand compared to 2016 due to increase in city-wide cost allocation and professional services.



The City acquired capital property (assets) from Clark County relating to the Van-Mall North annexation, which is reported as a special item on the Statement of Changes in Net Position. The net book value of the assets acquired in the business-type activities, totaled \$3.9 million.

The prior year adjustment of \$7.4 million reported for business-type activities was to record certain Water Sewer projects as Construction in progress as well as the transfer of storm infrastructure constructed by the Transportation department (a governmental fund) to the Water Sewer department (business fund) in 2016. There were also a few assets that should have been retired in a prior year, and a correction of the useful lives used for parking garages which caused a large decrease in accumulated depreciation. For additional information regarding prior period adjustments see Note 4.K

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### Governmental Funds Analysis

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

The General Fund is the primary governmental fund. General Fund revenues were up 6.8% over 2016 due primarily to an increase in Sales and Use taxes and Other Taxes for \$3.6 million and \$4.8 million, respectively. The increase associated with Sales and Use taxes is based on an increase in sales construction and sales activity, a direct result of an improving economy. The increase in other taxes of \$4.8 million is primarily due to an increase in taxes paid to the general fund from utilities operating within the city limits.

General Fund expenditures accounted for 42.5% of total governmental fund expenditures for 2017, and increased by \$12.3 million or 14.9%. Ending fund balance of the General Fund increased by \$2.2 million.

The Consolidated Fire Fund is a special revenue fund that encompasses both the operations and the equipment for the City's fire departments and Clark County Fire Protection District No. 5. Services provided by this fund include firefighting, emergency medical services, rescue, and public safety education. As reported in the Statement of Revenues, Expenditures and Changes in Fund Balances, major funding for the Consolidated Fire Fund is Charges for Services and a transfer from the City's General Fund. The Consolidated Fire Fund in 2017 accounted for 18.6% of the governmental funds expenditures; an increase of \$4.3 million from 2016 due to increased personnel costs and supplies. The fund balance decreased by \$719 thousand as expenses were slightly higher than revenues and transfers in.

The Street Fund is a special revenue fund established in accordance with State RCW 35A.37.010 for the administration of street-oriented maintenance and construction. Revenues have historically been derived from tax contributions distributed from the General Fund, state shared gasoline tax, an excise tax of 1/4 of 1% of property value of transferred property and rents and royalties. In 2016, after the City spent a great deal of time finding a long-term solution to the street infrastructure funding, an intensive community engagement process took place resulting in a new revenue package to fund enhancements in the service level. The total of 10.1% of governmental fund expenditures was attributable to the Street fund in 2017; with an increase, primarily capital outlay, of \$6.1 million from 2016. Fund balance increased \$1.4 million.

The Transportation Capital fund, established in 1998 to account for all transportation related capital projects, is being reported as a major fund in 2017 due to the significant increase in capital projects during the year. The fund expenditures accounted for 7.5% of the total governmental fund expenditures, an increase, primarily capital outlay, of \$10.9 million from 2016. Fund balance decreased by \$521 thousand as expenditures were slightly higher than revenues and transfers in.

The Capital Improvement Fund, established in 1977 to fund major capital projects in the City, is also being reported as a major fund in 2017 due to the increase in capital projects during the year, including the construction of two new fire stations. Fund expenditures accounted for 9.0% of total governmental fund expenditures, an increase, primarily capital outlay, of \$10.9 million from 2016. Fund balance decreased by \$13.1 million.

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

## **Business-Type Funds Analysis**

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

The Water/Sewer Fund is the largest business-type fund in the City, accounting for 95.1% of net position for the enterprise funds at \$432.1 million. This fund encompasses three legally consolidated utilities: water, sewer, and drainage operations. The Water/Sewer Fund's net position increased by \$24.8 million in 2017, which was further increased by \$1.4 million prior period adjustments. This fund also reported operating income of \$5.7 million in 2017, a decrease of \$1.5 million from 2016; of which operating revenue increased \$8.1 million or 9.1% over 2016 primarily due an increase in water and sewer rates ranging from approximately 3% to 5%, while operating expenses also increased \$9.6 million or 11.7% from 2016 related to an increase in taxes and professional services for maintenance. Additionally, Water/Sewer total net capital assets increased to \$364.4 million and its bonded indebtedness decreased by \$7.1 million in 2017.

The Parking Services Fund reported a positive net position of \$6.4 million. Operating income was \$630 thousand in 2017 which is a large increase from the \$419 thousand operating loss reported in 2016. Operating revenues increased by \$1.0 million due to parking permit rate increases and paystation rate increases in 2017, along with the addition of new paystations and active enforcement. Operating expenses decreased only \$1,544 due overall to a large reduction in the annual depreciation expense relating to the extension of useful lives of the parking garages, offset by the increase in supplies and contractual services, and interfund services. Additionally, the change in useful lives of the parking structures from 20 years to 40 years, caused a prior period adjustment for historic depreciation. The General Fund support of the Parking Services Fund was \$500 thousand in 2017, which is a reduction of \$745 thousand compared to 2016.

The non-major business-type funds present an operating loss of \$2.3 million, with all funds making up this balance operating at a loss in 2017. The Building Inspection Fund and Solid Waste Fund had the most significant operating losses which also accounts for the majority of the decrease in total net position. The Building Inspection Fund reported a \$1.2 million operating loss, which increased from the 2016 loss of \$976 thousand due to the slight decrease of Charges for Services and an increase in operating expenses of \$202 thousand relating to Personnel services. The Solid Waste fund presented an operating loss of \$548 thousand which is slightly higher than the \$442 thousand operating loss reported in 2016 a result of an increase in operating expenses related to Supplies and Contractual services and Interfund Services in 2017.

The Airport fund (formerly named the Airpark fund) reported a \$166 thousand net operating loss which was a \$30 thousand increase from 2016, primarily due to a small decrease in rent revenue, and a small increase in depreciation expense. A prior period adjustment was reported in the Airport fund for the capitalization of a 2016 hangar asset.

Tennis Center had a \$344 thousand operating loss, which was only slightly higher than 2016 operating loss of \$261 thousand. The increased loss was primarily due to a decrease in charges for services, and a small increase in interfund expenses during the year.

The non-major business-type funds represent \$2.2 million of the Net Pension Liability in 2017.

Internal Service Funds operate like the enterprise funds, but perform services primarily for other funds within the City. Because of the nature of these funds, they are charged with operating as close as possible to a breakeven point. City Internal Service funds as reported in 2017 realized a net position increase of \$8.1 million. In total Internal Service funds reported an operating income of \$4.1 million. The Internal Service Funds proportionate share of the Pension Liability is \$5.6 million at the end of 2017.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City has been enjoying several years of revenues in the General Fund coming in above forecasts mostly due to elevated levels of Sales Tax revenue. On an on-going basis, the budget anticipates an ongoing structural deficit each biennium that is a result of growth in on-going expenditures outpacing growth in on-going revenues. Contributing factors to this deficit include the following:

- Voters' passage of Initiative 695, which eliminated the motor vehicle excise tax in 2000.
- Initiative 747, which beginning in 2002 limited increases in property taxes to the lower of 1 percent or the implicit price deflator.
- The phase out and elimination of the city's Business and Occupation Tax beginning in 1993.
- Significantly greater City reliance on revenues that fluctuate with the economy.

The City has had relative financial stability from 2011 through 2016 fiscal year with continued stability noted reinforced through the 2017-2018 Budget. There were no service-level or staffing reductions taken during this period of time. The City has taken this time to evaluate and reinforce its Financial Policies for the General Fund and other funds and re-build its General Fund balance to allow for future fluctuations of the economy. These policies are reviewed every two years during the budget development process. The policies ensure that the City maintains a healthy financial foundation into the future. These policies address such items as debt, future capital needs, and adequate reserves to build a stable and sustainable future and guide creation of City budgets.

Some significant changes between the original and final budget in 2017 include a total of 93.2 FTEs added during various budget actions of the City. Staffing has been added in various departments to support the Van Mall North Annexation that took place in August of 2017, and staffing in Police to fund the increased Business License Surcharge and Utility Tax revenues authorized by Council in response to recommendations from the extended community engagement process. A corresponding increase in purchases of police vehicles occurred in relation to the increase in staff. There were two large property purchases funded by the general fund; one near the Operations Center and the Homeless Day Center. The large variance between the final budget and actual revenues and appropriations is due to the budget reflecting a two-year biennium while actuals only reflect 2017 data. See page 33 for General Fund Budget and Actual schedule.

The final 2017-2018 biennial budget totals \$1.1 billion in operating and capital expenditures, including 1,108.9 positions.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City of Vancouver's investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2017, amounts to \$1.1 billion (net of accumulated depreciation).

The table that follows is a comparison of the summary information for year-end 2016 and 2017 capital assets.

	Capital Assets, Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total Activities	
	2016 Restated	2017	2016 Restated	2017	2016 Restated	2017
Land	\$ 84,246,111	\$ 100,099,842	\$ 33,903,845	\$ 36,591,729	\$ 118,149,956	\$ 136,691,571
Intangible - Easements	8,254,012	8,532,500	6,969,890	9,097,838	15,223,902	17,630,338
Buildings and systems	78,853,130	88,850,958	19,866,840	19,342,501	98,719,970	108,193,459
Machinery and equipment	14,866,692	16,024,278	1,979,630	2,599,617	16,846,322	18,623,895
Infrastructure	395,213,658	415,043,298	294,723,835	295,012,651	689,937,493	710,055,949
Intangible assets	694,539	668,851	675,481	1,812,488	1,370,020	2,481,339
Construction in progress	28,822,004	53,888,370	9,508,316	19,052,733	38,330,320	72,941,103
Total	\$ 610,950,146	\$ 683,108,097	\$ 367,627,836	\$ 383,509,556	\$ 978,577,982	\$ 1,066,617,653

Total net capital assets increased 9.0%, with the most significant change in Construction in progress (CIP) of \$34.6 million or 90.3% for both Governmental and Business-Type Activities. Land increased \$18.5 million, or 15.7%, Buildings and systems increased \$9.5 million, or 9.6%, and infrastructure increased \$20.1 million or 2.9%. Some of the major capital projects and acquisitions that took place during the year included the annexation of land, streets and sewer property from Clark County, the building of two new fire stations, ongoing development of waterfront park, major renovations of four Historic Reserve buildings, the Marshall Community Center pool renovation, new street construction, the installation of public sewer lines in the Sifton neighborhood, UV System Replacement for the Wastewater Treatment Plant, ongoing electrical upgrades to the City's most important Water Station, hardware upgrades to the water and sewer utility Supervisory Control and Data Acquisition (SCADA), an increase in public safety fleet vehicles, and the installation of new parking meters.

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

### Long-Term Debt

At December 31, 2017, the City of Vancouver had total bonded debt outstanding of \$94.9 million. Of this amount, \$75.1 million is General Obligation debt, which is backed by the full faith and credit of the government. The remainder of the City's debt of \$19.8 million represents bonds secured solely by specific revenue sources (i.e., revenue bonds). The below table is a comparison of the summary information for year-end 2016 and 2017 bonded debt. The City of Vancouver's total bonded debt decreased by \$15.5 million, the result of scheduled principal payments made throughout 2017.

	City of Vancouver Outstanding Bonded Debt					
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2017	2016	2017	2016	2017
General obligation bonds	\$ 73,924	\$ 67,056	\$ 8,952	\$ 8,030	\$ 82,876	\$ 75,086
Revenue bonds	-	-	21,300	14,580	21,300	14,580
Net Amounts for: Issuance premiums (discounts)	5,360	4,791	901	456	6,261	5,247
Total	\$ 79,284	\$ 71,847	\$ 31,153	\$ 23,066	\$ 110,437	\$ 94,913

The City of Vancouver maintains an "Aa2"/"AA+" issuer rating from Moody's/Standard and Poor's (S & P) rating services, respectively. The City's LTGO bonds are rated Aa3/AA+. Additional information on the City's long-term debt can be found in Note III.E of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Revenue projections for 2018 indicate that revenues are anticipated to continue increasing over the projected time period, driven mostly by the economic stabilization. Some tempering in the rate of growth of sales tax is anticipated in 2018. The City has enjoyed several years of stability and was able to set aside funding for several high priority capital projects, such as the Waterfront Park and two replacement Fire Stations.

The City's management continues its commitment to seeking out and implementing new cost containment and service delivery options to ensure the most efficient and effective way of service delivery and savings over the long run. The City agencies have embarked on a process of developing their business plans and priorities at the same time as City Council is developing the vision and strategic plan for the City of Vancouver over the long term.

The City has had a very successful year in finding a long-term solution to the street infrastructure funding. An intensive community engagement process took place during 2015 resulting in a recommendation to Council on the desired service level in city street maintenance and a new revenue package to fund the enhancements in the service level. As the result of the process, a number of new funding sources and revenue increases was approved that would ultimately improve the City's roads from "fair" to "good" over the next 20-year period. A similar process took place in 2016 in relation to the service and staffing levels in Police. The outcome of this process was community support for additional staffing in Police, adding a total of 62 positions between 2016 and 2020. The staffing increase was funded by increases in the Utility tax revenue, and business license surcharge.

### **Requests for Information**

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

**CITY OF VANCOUVER**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total Primary Government	Vancouver Downtown Redevelopment Authority	Vancouver Public Facilities District
<b>ASSETS</b>					
Cash and cash equivalents	\$ 207,160,914	\$ 98,587,407	\$ 305,748,321	\$ 96,916	\$ 137,101
Cash with fiscal/escrow agent	-	-	-	13,480,989	-
Restricted assets					
Cash	-	6,186,935	6,186,935	-	-
Accrued interest receivable	-	11,239	11,239	-	-
Receivables (net of allowance for uncollectible accounts)	22,448,999	9,815,299	32,264,298	1,500,015	267,832
Inventories	607,311	815,346	1,422,657	35,166	-
Capital assets held for resale	44,000	-	44,000	-	-
Prepaid Items	100,000	-	100,000	165,976	-
Internal balances	199,061	(199,061)	-	-	-
Due from other governmental units	6,331,219	129,026	6,460,245	-	330,618
Net pension asset	25,516,893	-	25,516,893	-	-
Capital assets (net of accumulated depreciation)					
Land	100,099,842	36,591,729	136,691,572	-	3,603,691
Easements	8,532,500	9,097,838	17,630,338	-	-
Buildings	88,850,958	19,342,499	108,193,457	36,824,474	-
Machinery and equipment	16,024,278	2,599,617	18,623,895	2,090,117	-
Infrastructure	415,043,298	295,012,650	710,055,948	-	-
Intangible assets	668,851	1,812,487	2,481,338	-	-
Construction work in progress	53,888,370	19,052,733	72,941,102	1,241,541	-
<b>Total Assets</b>	<b>945,516,494</b>	<b>498,855,744</b>	<b>1,444,372,238</b>	<b>55,435,194</b>	<b>4,339,242</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Unamortized loss on refunding	2,281,160	509,181	2,790,341	1,112,676	-
Amounts related to pension	6,106,699	2,181,602	8,288,301	-	-
<b>Total deferred outflows of resources</b>	<b>8,387,859</b>	<b>2,690,783</b>	<b>11,078,642</b>	<b>1,112,676</b>	<b>-</b>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	21,757,125	7,122,910	28,880,035	1,400,380	722,006
Accrued interest payable	238,220	81,271	319,491	1,267,656	-
Unearned revenue	672,235	245,045	917,280	360,347	-
Custodial accounts	1,164,922	88,847	1,253,769	-	-
Noncurrent liabilities:					
Special assessment debt with governmental commitments due within one year	30,000	-	30,000	-	-
Special assessment debt with governmental commitments due in more than one year	45,000	-	45,000	-	-
Net pension liability	19,552,612	12,377,229	31,929,841	-	-
Net OPEB Obligation	11,570,817	-	11,570,817	-	-
Due within one year	18,617,324	10,490,848	29,108,172	1,357,117	-
Due in more than one year	92,709,993	14,978,143	107,688,136	66,286,613	-
<b>Total Liabilities</b>	<b>166,358,248</b>	<b>45,384,293</b>	<b>211,742,541</b>	<b>70,672,113</b>	<b>722,006</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Amounts related to pension	8,902,337	2,027,534	10,929,871	-	-
<b>Total deferred inflows of resources</b>	<b>8,902,337</b>	<b>2,027,534</b>	<b>10,929,871</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>					
Net investment in capital assets	612,778,399	360,952,055	973,730,454	(17,884,073)	3,603,691
Restricted for:					
Capital purposes	23,460,988	1,055,099	24,516,087	444,106	-
Debt service	64,261	5,168,632	5,232,893	4,354,064	-
Grant purposes	5,079,191	-	5,079,191	-	-
Security purposes	16,000,076	-	16,000,076	-	-
Economic purposes	10,366,006	-	10,366,006	-	-
Parks & Recreation purposes	46,391	-	46,391	-	-
Pension	25,516,893	-	25,516,893	-	-
Unrestricted	85,331,563	86,958,914	172,290,477	(1,038,340)	13,545
<b>Total Net Position</b>	<b>\$ 778,643,768</b>	<b>\$ 454,134,700</b>	<b>\$ 1,232,778,468</b>	<b>\$ (14,124,243)</b>	<b>\$ 3,617,236</b>

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



**CITY OF VANCOUVER**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2017**

		Program Revenues		
Functions/Programs	Expenses	Charges for Services, Fees, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 20,209,275	\$ 14,855,589	\$ 76,240	\$ 854,814
Security/ persons & property	95,626,705	13,950,286	2,525,088	39,465
Physical Environment	696,060	100,461	-	-
Transportation	40,884,091	8,506,604	-	19,719,359
Mental and Physical Health	466,762	-	-	-
Economic Environment	10,495,402	2,583,020	1,470,830	1,652,904
Culture and Recreation	11,123,786	4,492,790	298,699	4,387,456
Interest on Long-Term Debt	2,924,804	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	182,426,885	44,488,750	4,370,857	26,653,998
Business Type Activities:				
Water/Sewer	92,720,005	97,488,089	47,199	14,579,884
Parking	2,945,303	3,261,541	-	-
Airport	836,199	665,375	193,020	-
Building Inspection	5,405,890	4,167,065	-	-
Solid Waste	2,522,823	1,974,650	-	-
Tennis Center	1,087,504	743,654	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	105,517,724	108,300,374	240,219	14,579,884
Total Primary Government	\$ 287,944,609	\$ 152,789,124	\$ 4,611,076	\$ 41,233,882
COMPONENT UNITS				
Downtown Redevelopment Authority	\$ 18,057,748	\$ 18,139,871	\$ -	\$ -
Public Facilities District	1,450,354	-	8,758	-
TOTAL COMPONENT UNITS	\$ 19,508,102	\$ 18,139,871	\$ 8,758	\$ -

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

**CITY OF VANCOUVER**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2017**

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business -type Activities	Total	Vancouver Downtown Redevelopment Authority	Vancouver Public Facilities District
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities:					
General Government	\$ (4,422,632)	\$ -	\$ (4,422,632)	\$ -	\$ -
Security/ persons & property	(79,111,866)	-	(79,111,866)	-	-
Physical Environment	(595,599)	-	(595,599)	-	-
Transportation	(12,658,128)	-	(12,658,128)	-	-
Mental and Physical Health	(466,762)	-	(466,762)	-	-
Economic Environment	(4,788,648)	-	(4,788,648)	-	-
Culture and Recreation	(1,944,841)	-	(1,944,841)	-	-
Interest on Long-Term Debt	(2,924,804)	-	(2,924,804)	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>(106,913,280)</b>	<b>-</b>	<b>(106,913,280)</b>	<b>-</b>	<b>-</b>
Business Type Activities:					
Water/Sewer	-	19,395,167	19,395,167	-	-
Parking	-	316,238	316,238	-	-
Airpark	-	22,196	22,196	-	-
Building Inspection	-	(1,238,825)	(1,238,825)	-	-
Solid Waste	-	(548,173)	(548,173)	-	-
Tennis Center	-	(343,850)	(343,850)	-	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>-</b>	<b>17,602,753</b>	<b>17,602,753</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>(106,913,280)</b>	<b>17,602,753</b>	<b>(89,310,527)</b>	<b>-</b>	<b>-</b>
<b>COMPONENT UNITS</b>					
Downtown Redevelopment Authority	-	-	-	82,123	-
Public Facilities District	-	-	-	-	(1,441,596)
<b>TOTAL COMPONENT UNITS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82,123</b>	<b>(1,441,596)</b>
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes	52,791,146	-	52,791,146	-	-
Sales and Use Taxes	40,357,473	-	40,357,473	2,660,634	1,441,596
Utility Taxes	44,279,022	-	44,279,022	-	-
Excise, Lodging and Other Taxes	13,033,066	-	13,033,066	-	-
Unrestricted Investment Earnings (loss)	2,107,348	1,043,201	3,150,549	75,870	(37)
Gain (loss) on Sale of Capital Assets	(278,176)	(52,549)	(330,725)	-	-
Miscellaneous	918,330	846,955	1,765,285	-	-
Special Items:					
Gain on extinguishment of debt	-	-	-	107,813	-
Annexation	34,574,972	3,942,708	38,517,680	-	-
Extraordinary Item:					
Bankruptcy settlement	-	-	-	31,146	-
Contract termination	-	-	-	-	-
Transfers	(448,225)	448,225	-	-	-
Total General Revenues, Special Items, Extraordinary Items and Transfers	187,334,956	6,228,540	193,563,496	2,875,463	1,441,559
Change in Net Position	80,421,676	23,831,293	104,252,969	2,957,586	(37)
Net Position - Beginning (restated)	711,169,862	422,943,451	1,134,113,313	(17,081,829)	3,617,273
Prior period adjustments	(12,947,770)	7,359,956	(5,587,814)	-	-
Change in accounting principles	-	-	-	-	-
<b>Net Position - Ending</b>	<b>\$ 778,643,768</b>	<b>\$ 454,134,700</b>	<b>\$ 1,232,778,468</b>	<b>\$ (14,124,243)</b>	<b>\$ 3,617,236</b>

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



**CITY OF VANCOUVER**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2017

	Major Funds				
	General Fund	Consolidated Fire Fund	Street Fund	Transportation Capital Fund	Capital Improvement Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 64,388,614	\$ 15,717,322	\$ 12,614,427	\$ 5,601,346	\$ 6,396,271
Receivables (net)					
Taxes/assessments	12,311,818	-	861,544	-	-
Accounts	1,025,271	128,659	38,101	86	289,035
Interest	121,580	28,710	23,014	10,242	11,662
Notes	-	-	-	-	-
Due from other funds	170,084	168,416	372,351	408,220	10,000
Due from other governmental units	179,336	15,935	-	4,548,559	-
<b>TOTAL ASSETS</b>	<b>\$ 78,196,703</b>	<b>\$ 16,059,042</b>	<b>\$ 13,909,437</b>	<b>\$ 10,568,453</b>	<b>\$ 6,706,968</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 3,999,621	\$ 221,059	\$ 609,850	\$ 3,209,776	\$ 2,321,100
Due to other funds	200,968	5,932	376,982	394,280	28,538
Due to other governmental units	188,521	-	-	-	-
Accrued interest payable	1,089	-	-	-	-
Accrued liabilities	3,647,568	1,358,420	226,139	20,322	-
Revenues collected in advance	160,399	120,235	2,832	-	-
Custodial accounts	1,136,808	728	1,329	-	-
Unearned revenue	-	-	3,443	-	289,035
Total liabilities	9,334,974	1,706,374	1,220,575	3,624,378	2,638,673
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-property taxes	628,771	-	-	-	-
Unavailable revenue-special assessments	-	-	-	-	-
Unavailable revenue-grants and other	854,199	18,962	-	-	-
Total deferred inflows of resources	1,482,970	18,962	-	-	-
<b>FUND BALANCES</b>					
Restricted	23,943	14,333,706	-	-	-
Committed	21,745,949	-	12,688,862	6,944,075	-
Assigned	35,793,920	-	-	-	4,068,295
Unassigned	9,814,947	-	-	-	-
Total fund balances	67,378,759	14,333,706	12,688,862	6,944,075	4,068,295
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 78,196,703</b>	<b>\$ 16,059,042</b>	<b>\$ 13,909,437</b>	<b>\$ 10,568,453</b>	<b>\$ 6,706,968</b>

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

**CITY OF VANCOUVER**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2017

	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 52,169,511	\$ 156,887,491
Receivables (net)		
Taxes/assessments	890,597	14,063,959
Accounts	776,885	2,258,037
Interest	95,218	290,426
Notes	4,956,040	4,956,040
Due from other funds	59,990	1,189,061
Due from other governmental units	1,550,389	6,294,219
<b>TOTAL ASSETS</b>	<b>\$ 60,498,630</b>	<b>\$ 185,939,233</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 3,451,208	\$ 13,812,614
Due to other funds	213,842	1,220,542
Due to other governmental units	253,984	442,505
Accrued interest payable	20	1,109
Accrued liabilities	47,916	5,300,365
Revenues collected in advance	4,026	287,492
Custodial accounts	16,854	1,155,719
Unearned revenue	90,358	382,836
Total liabilities	4,078,208	22,603,182
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue-property taxes	47,275	676,046
Unavailable revenue-special assessments	87,434	87,434
Unavailable revenue-grants and other	166,648	1,039,809
Total deferred inflows of resources	301,357	1,803,289
<b>FUND BALANCES</b>		
Restricted	44,322,890	58,680,539
Committed	1,915,682	43,294,568
Assigned	9,880,493	49,742,708
Unassigned	-	9,814,947
Total fund balances	56,119,065	161,532,762
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 60,498,630</b>	<b>\$ 185,939,233</b>

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

**CITY OF VANCOUVER****RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT WIDE STATEMENT OF NET POSITION**

December 31, 2017

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 161,532,762</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	671,289,793
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Capital Assets Held for Resale used in governmental activities that are not financial resources and therefore are not reported in the funds	44,000
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Long-term liabilities that are not due and payable in the current period and are not reported in the funds	
Bonds Payable	(67,056,036)
Plus: Issuance (Premium)/Discount (to be amortized as interest income)	(4,790,926)
Special assessment debt	(75,000)
Accrued interest payable	(237,111)
Government loans	(4,345,824)
Compensated absences for non-Internal Service Funds	(8,010,579)
Impact fee credits	(19,163,313)
Net OPEB obligation	(11,570,817)
Net Pension Liability Multit-Employer Plan	(13,888,943)
Net Pension Liability - Single Employer Plan	(99,238)

Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds, or other long-term assets of the City	
Deferred amounts eliminated for government-wide	1,803,289
Net Pension Assets Multi-Employer Plan	22,487,335
Net pension Asset - Single Employer Plan	3,029,558

Deferred outflows/(inflows) required to be recognized on government-wide	
Deferred outflows - unamortized loss on refunding (to be amortized as interest expense)	2,281,160
Deferred outflows - related to pensions	5,125,916
Deferred inflows - related to pensions	(7,990,818)

Internal service funds are used to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position	48,278,560
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<b>Total net position of governmental activities</b>	<b><u>\$ 778,643,768</u></b>
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The notes to the financial statements are an integral part of this statement

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

For the Year ended December 31, 2017

	Major Funds				
	General Fund	Consolidated Fire Fund	Street Fund	Transportation Capital Fund	Capital Improvement Fund
<b>REVENUES</b>					
Property taxes	\$ 45,928,317	\$ 369,752	\$ 451,919	\$ -	\$ -
Sales and use taxes	40,357,473	-	-	-	-
Other taxes	44,950,759	-	3,762,613	150,490	-
License and permits	1,851,552	658,373	806,319	-	-
Intergovernmental	4,750,123	356,690	4,021,673	12,612,119	104,939
Charges for services	11,140,475	11,032,204	687,580	28,327	-
Fines and penalties	1,221,046	42,664	-	1,500	-
Investment earnings	767,231	143,628	99,361	53,043	87,516
Rents and royalties	3,259,248	57,655	391,019	-	4,882
Contributions/donations	278,631	71,960	-	350,000	1,261,461
Miscellaneous	229,397	42,306	30	-	-
Total revenues	<u>154,734,252</u>	<u>12,775,232</u>	<u>10,220,514</u>	<u>13,195,479</u>	<u>1,458,798</u>
<b>EXPENDITURES</b>					
Current					
General government	21,891,057	-	-	-	588,652
Security/persons & property	51,137,403	40,215,433	-	-	345,117
Physical environment	675,612	-	-	-	-
Transportation	45,623	-	14,651,085	2,459,790	-
Economic environment	5,656,234	-	-	-	149,147
Mental and physical health	466,762	-	-	-	-
Culture and recreation	9,304,728	-	-	-	-
Capital outlay	6,082,958	1,563,876	8,060,167	14,258,111	18,992,592
Debt service					
Principal retirement	-	-	-	-	-
Interest/fiscal charges	-	-	-	-	-
Total expenditures	<u>95,260,377</u>	<u>41,779,309</u>	<u>22,711,252</u>	<u>16,717,901</u>	<u>20,075,508</u>
Excess (deficiency) of revenues over (under) expenditures	59,473,875	(29,004,077)	(12,490,738)	(3,522,422)	(18,616,710)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	541	52,815	13,772	184,820	-
Transfers in	860,354	29,135,917	14,879,355	3,117,695	5,680,123
Transfers out	(58,183,205)	(904,137)	(1,030,655)	(301,454)	(188,247)
Total other financing sources and uses	<u>(57,322,310)</u>	<u>28,284,595</u>	<u>13,862,472</u>	<u>3,001,061</u>	<u>5,491,876</u>
Net change in fund balances	2,151,565	(719,482)	1,371,734	(521,361)	(13,124,834)
<b>FUND BALANCES - BEGINNING</b>	<u>65,227,194</u>	<u>15,053,188</u>	<u>11,317,128</u>	<u>7,465,436</u>	<u>17,193,129</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 67,378,759</u>	<u>\$ 14,333,706</u>	<u>\$ 12,688,862</u>	<u>\$ 6,944,075</u>	<u>\$ 4,068,295</u>

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

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

For the Year ended December 31, 2017

	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>		
Property taxes	\$ 5,950,443	\$ 52,700,431
Sales and use taxes	-	40,357,473
Other taxes	8,476,921	57,340,783
License and permits	2,592,692	5,908,936
Intergovernmental	4,336,100	26,181,644
Charges for services	5,229,672	28,118,258
Fines and penalties	75,979	1,341,189
Investment earnings	468,667	1,619,446
Rents and royalties	372,771	4,085,575
Contributions/donations	80,798	2,042,850
Miscellaneous	646,597	918,330
Total revenues	<u>28,230,640</u>	<u>220,614,915</u>
<b>EXPENDITURES</b>		
Current		
General government	1,057,865	23,537,574
Security/persons & property	198,703	91,896,656
Physical environment	3,676	679,288
Transportation	150,478	17,306,976
Economic environment	4,588,536	10,393,917
Mental and physical health	-	466,762
Culture and recreation	963,353	10,268,081
Capital outlay	10,354,207	59,311,911
Debt service		
Principal retirement	7,239,681	7,239,681
Interest/fiscal charges	3,153,921	3,153,921
Total expenditures	<u>27,710,420</u>	<u>224,254,767</u>
Excess (deficiency) of revenues over (under) expenditures	520,220	(3,639,852)
<b>OTHER FINANCING SOURCES (USES)</b>		
Sale of capital assets	-	251,948
Transfers in	16,425,453	70,098,897
Transfers out	(11,274,658)	(71,882,356)
Total other financing sources and uses	<u>5,150,795</u>	<u>(1,531,511)</u>
Net change in fund balances	5,671,015	(5,171,363)
<b>FUND BALANCES - BEGINNING</b>	<u>50,448,050</u>	<u>166,704,125</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 56,119,065</u>	<u>\$ 161,532,762</u>

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

**CITY OF VANCOUVER**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
For the Year ended December 31, 2017**
**Net Change in fund balances - total governmental funds** **\$ (5,171,363)**

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 50,263,657	
Depreciation Expense	(22,012,766)	28,250,891

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) not reported in governmental funds.		4,418,142
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Earned taxes	90,715	
Earned special assessments	(28,695)	
Earned revenue considered available at fund level	532,128	
Contributions related to impact fee credits	(674,542)	
Contributions related to pension	1,392,511	1,312,117

Long-term liabilities, including the issuance of bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt/ loans consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the result of the differences in the treatment of long-term debt and related items.

General obligation debt payments	6,868,210	
Governmental loan payments	336,471	
Special assessment debt payments	35,000	
Other governmental loan related to 2017 Annexation	26,857	7,266,538

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(553,750)	
OPEB Cost	(1,669,115)	
Pension - single employer plan	1,351,274	
Pension Cost - multiple employer plan	2,328,444	
Accrued Interest	25,716	
Amortization of deferred amount on refunding	(364,934)	
Amortization of discounts/premiums	568,335	1,685,970

Special item related to VanMall North Annexation, not reported in governmental funds.

Contributed capital, Annexation of County Property		34,574,972
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Internal service funds are used by management to charge the costs of equipment, insurance and printing to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

8,084,409

**Changes in Net Position of Governmental Activities** **\$ 80,421,676**

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

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

For the Year ended December 31, 2017

	Budget Amounts		Actual	Variance
	Original 2017-18 Biennium	Final 2017-18 Biennium	Biennium To- Date Thru 12/31/17	
<b>REVENUES</b>				
Property tax	\$ 92,729,863	\$ 94,531,560	\$ 45,928,317	\$ 48,603,243
Sales and use taxes	68,076,111	73,158,315	40,357,473	32,800,842
Other taxes	80,069,244	88,921,061	44,950,759	43,970,302
License and permits	2,373,318	3,925,568	1,851,552	2,074,016
Intergovernmental	7,738,071	9,610,286	4,725,610	4,884,676
Charges for services	22,004,966	23,692,800	10,913,269	12,779,531
Fines and forfeitures	3,146,800	3,187,767	1,221,046	1,966,721
Investment earnings	943,997	943,997	710,862	233,135
Rents and royalties	4,916,962	4,265,712	3,259,248	1,006,464
Contributions/donations	101,664	230,399	278,631	(48,232)
Miscellaneous	30,141	30,141	229,397	(199,256)
Total revenues	<u>282,131,137</u>	<u>302,497,606</u>	<u>154,426,164</u>	<u>148,071,442</u>
<b>EXPENDITURES</b>				
Current:				
General government	49,447,923	48,900,387	21,890,780	27,009,607
Security/persons & property	102,103,564	107,936,304	50,904,223	57,032,081
Physical environment	617,687	1,205,390	675,612	529,778
Transportation	42,600	91,400	45,623	45,777
Economic environment	10,887,564	13,191,303	5,656,234	7,535,069
Mental and physical health	833,042	833,042	466,762	366,280
Culture and recreation	19,457,810	19,805,916	9,304,728	10,501,188
Capital outlay	308,500	13,985,455	6,129,013	7,856,442
Total expenditures	<u>183,698,690</u>	<u>205,949,197</u>	<u>95,072,975</u>	<u>110,876,222</u>
Excess (deficiency) of revenues over expenditures	98,432,447	96,548,409	59,353,189	37,195,220
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	541	(541)
Transfers in	1,617,514	4,686,567	1,014,049	3,672,518
Transfers out	(103,026,812)	(116,313,307)	(58,257,250)	(58,056,057)
Total other financing sources (uses)	<u>(101,409,298)</u>	<u>(111,626,740)</u>	<u>(57,242,660)</u>	<u>(54,384,080)</u>
Net change in fund balance	(2,976,851)	(15,078,331)	2,110,529	(17,188,860)
<b>FUND BALANCES - BEGINNING</b>	<u>65,227,194</u>	<u>65,227,194</u>	<u>65,227,194</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 62,250,343</u>	<u>\$ 50,148,863</u>	<u>67,337,723</u>	<u>\$ (17,188,860)</u>
Adjustment to generally accepted accounting principles (GAAP) basis:				
Riverwest RDA Fund budgeted as separate fund			2	
School District Impact Fees budgeted as separate fund			(2,119)	
SW Washington Regional SWAT Team budgeted as separate fund			20,134	
Facilities Asset Management budgeted as separate fund			23,019	
Fund Balance GAAP basis:			<u>\$ 67,378,759</u>	

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

**CITY OF VANCOUVER**  
**CONSOLIDATED FIRE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year ended December 31, 2017**

	Budget Amounts		Actual	
	Original	Final	Biennium	Variance
	2017-18	2017-18	To- Date	
	Biennium	Biennium	Thru 12/31/17	Thru 12/31/17
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 369,752	\$ (369,752)
License and permits	1,554,636	1,554,636	658,373	896,263
Intergovernmental	-	464,288	356,690	107,598
Charges for services	22,988,399	21,681,559	11,032,204	10,649,355
Fines and forfeits	32,000	32,000	42,664	(10,664)
Investment earnings	162,000	162,000	143,628	18,372
Rents and royalties	223,768	223,768	57,655	166,113
Contributions/donations	-	71,960	71,960	-
Miscellaneous	-	-	42,306	(42,306)
Total revenues	<u>24,960,803</u>	<u>24,190,211</u>	<u>12,775,232</u>	<u>11,414,979</u>
<b>EXPENDITURES</b>				
Current				
Security/persons & property	76,371,577	81,336,269	40,215,433	41,120,836
Capital outlay	<u>1,905,034</u>	<u>3,643,922</u>	<u>1,563,876</u>	<u>2,080,046</u>
Total expenditures	<u>78,276,611</u>	<u>84,980,191</u>	<u>41,779,309</u>	<u>43,200,882</u>
Excess (deficiency) of revenues over (under) expenditures	(53,315,808)	(60,789,980)	(29,004,077)	(31,785,903)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	52,815	(52,815)
Transfers in	56,434,425	59,310,144	29,135,917	30,174,227
Transfers out	<u>(1,688,357)</u>	<u>(1,721,857)</u>	<u>(904,137)</u>	<u>(817,720)</u>
Total other financing sources and uses	<u>54,746,068</u>	<u>57,588,287</u>	<u>28,284,595</u>	<u>29,303,692</u>
Net change in fund balances	1,430,260	(3,201,693)	(719,482)	(2,482,211)
<b>FUND BALANCES - BEGINNING</b>	<u>15,053,188</u>	<u>15,053,188</u>	<u>15,053,188</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 16,483,448</u>	<u>\$ 11,851,495</u>	<u>\$ 14,333,706</u>	<u>\$ (2,482,211)</u>

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



**CITY OF VANCOUVER**  
**STREET FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year ended December 31, 2017**

	Budget Amounts		Actual	
	Original	Final	Biennium	Variance
	2017-18	2017-18	To- Date	
	Biennium	Biennium	Thru 12/31/17	Thru 12/31/17
<b>REVENUES</b>				
Property tax	\$ -	\$ 462,849	\$ 451,919	\$ 10,930
Other taxes	4,683,131	6,273,131	3,762,613	2,510,518
License and permits	2,220,000	2,220,000	806,319	1,413,681
Intergovernmental	7,917,354	8,046,984	4,021,673	4,025,311
Charges for services	1,119,083	1,119,083	687,580	431,503
Investment earnings	69,000	69,000	99,361	(30,361)
Rents and royalties	336,012	336,012	391,019	(55,007)
Miscellaneous	13,720	13,720	30	13,690
Total revenues	16,358,300	18,540,779	10,220,514	8,320,265
<b>EXPENDITURES</b>				
Current:				
Transportation	27,585,436	29,758,695	14,651,085	15,107,610
Capital outlay	17,179,054	18,380,381	8,060,167	10,320,214
Total expenditures	44,764,490	48,139,076	22,711,252	25,427,824
Excess (deficiency) of revenues over expenditures	(28,406,190)	(29,598,297)	(12,490,738)	(17,107,559)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	13,772	(13,772)
Transfers in	29,145,397	29,633,893	14,879,355	14,754,538
Transfers out	(1,420,076)	(2,599,714)	(1,030,655)	(1,569,059)
Total other financing sources (uses)	27,725,321	27,034,179	13,862,472	13,171,707
Net change in fund balance	(680,869)	(2,564,118)	1,371,734	(3,935,852)
<b>FUND BALANCES - BEGINNING</b>	11,317,128	11,317,128	11,317,128	-
<b>FUND BALANCES - ENDING</b>	\$ 10,636,259	\$ 8,753,010	\$ 12,688,862	\$ (3,935,852)

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

**CITY OF VANCOUVER**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2017**

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other Non-Major Enterprise Funds	Total	Internal Service Funds
	Water/Sewer	Parking Services			
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 84,903,382	\$ 2,695,403	\$ 10,988,622	\$ 98,587,407	\$ 50,273,422
Restricted cash, cash equivalents and investments:					
Cash and cash equivalents	6,186,935	-	-	6,186,935	-
Accrued interest receivable	11,239	-	-	11,239	-
Receivables (net)					
Taxes/assessments	-	-	-	-	-
Accounts	5,268,640	565,679	341,988	6,176,307	788,959
Interest	154,771	4,915	20,016	179,702	91,578
Other	-	9,246	-	9,246	-
Due from other funds	114,367	-	2,736	117,103	234,295
Advance to other funds - current	-	-	-	-	-
Due from other governmental units	45,702	-	83,324	129,026	37,000
Inventory	815,346	-	-	815,346	607,311
Capital assets held for resale	-	-	-	-	-
Prepaid expenses	-	-	-	-	100,000
Total current assets	97,500,382	3,275,243	11,436,686	112,212,311	52,132,565
Noncurrent assets					
Contracts receivable	3,450,044	-	-	3,450,044	-
Advance to other funds	-	-	-	-	-
Deferred charge	-	-	-	-	-
Capital assets					
Land and improvements	35,638,870	468,657	484,202	36,591,729	-
Intangible - Easements	9,097,838	-	-	9,097,838	-
Construction in progress	19,052,733	-	-	19,052,733	4,837,520
Other improvements	551,409,593	49,165	2,538,678	553,997,436	-
Buildings	7,396,854	16,984,573	11,258,328	35,639,755	-
Intangible assets	9,930,732	128,712	1,793,680	11,853,124	22,145
Machinery and equipment	24,786,174	1,309,263	324,322	26,419,759	32,386,112
Accumulated depreciation	(292,928,199)	(7,240,969)	(8,973,653)	(309,142,821)	(25,427,472)
Capital assets (net)	364,384,595	11,699,401	7,425,557	383,509,553	11,818,305
Total noncurrent assets	367,834,639	11,699,401	7,425,557	386,959,597	11,818,305
<b>TOTAL ASSETS</b>	465,335,021	14,974,644	18,862,243	499,171,908	63,950,870
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding	529,794	(22,658)	2,045	509,181	-
Amounts related to pension	1,731,966	65,444	384,192	2,181,602	980,783
Total deferred outflows of resources	2,261,760	42,786	386,237	2,690,783	980,783

The notes to this financial statement are an integral part of this statement

**CITY OF VANCOUVER**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
December 31, 2017

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other Non-Major Enterprise Funds		Internal Service Funds
	Water/Sewer	Parking Services		Total	
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	5,731,921	72,656	228,063	6,032,640	1,711,030
Claims and judgments payable	-	-	-	-	1,946,343
Due to other funds	250,499	5,632	60,033	316,164	3,753
Due to other governmental units	-	3,563	-	3,563	-
Accrued interest payable	62,744	18,227	300	81,271	-
Accrued liabilities	2,677,286	73,690	498,167	3,249,143	1,502,788
Custodial accounts	33,371	2,692	52,784	88,847	9,204
Unearned revenues	95,690	11,522	137,833	245,045	1,907
Bonds, notes and loans payable	7,329,818	929,664	68,930	8,328,412	-
Total current liabilities	16,181,329	1,117,646	1,046,110	18,345,085	5,175,025
Noncurrent liabilities					
Bonds, notes and loan payable	7,673,267	7,065,000	-	14,738,267	-
Claims and judgments	-	-	-	-	4,889,657
Accrued employee benefits	200,555	4,488	34,833	239,876	112,464
Net pension liability	9,826,236	371,294	2,179,699	12,377,229	5,564,431
Total noncurrent liabilities	17,700,058	7,440,782	2,214,532	27,355,372	10,566,552
Total liabilities	33,881,387	8,558,428	3,260,642	45,700,457	15,741,577
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Amounts related to pension	1,609,653	60,822	357,059	2,027,534	911,519
Total deferred inflows of resources	1,609,653	60,822	357,059	2,027,534	911,519
<b>NET POSITION</b>					
Net investment in capital assets	349,911,304	3,682,079	7,358,672	360,952,055	11,818,305
Restricted for capital purposes	1,055,099	-	-	1,055,099	210,000
Restricted for debt	5,168,632	-	-	5,168,632	-
Unrestricted	75,970,706	2,716,101	8,272,107	86,958,914	36,250,252
TOTAL NET POSITION	\$ 432,105,741	\$ 6,398,180	\$ 15,630,779	\$ 454,134,700	\$ 48,278,557

The notes to this financial statement are an integral part of this statement

**CITY OF VANCOUVER**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Fund		Other Non-Major Enterprise Funds		Internal Service Funds
	Water/Sewer	Parking Services		Total	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 95,867,234	\$ 8,704	\$ 6,745,211	\$ 102,621,149	\$ 44,913,599
Fines and penalties	757,178	629,112	6,900	1,393,190	-
Rents and royalties	810,373	2,593,769	795,912	4,200,054	5,511,504
Miscellaneous	53,304	29,956	2,721	85,981	1,163
Total operating revenues	<u>97,488,089</u>	<u>3,261,541</u>	<u>7,550,744</u>	<u>108,300,374</u>	<u>50,426,266</u>
<b>OPERATING EXPENSES</b>					
Personnel services	19,660,147	798,792	4,424,675	24,883,614	12,017,581
Supplies and contractual services	22,080,759	641,376	2,863,962	25,586,097	29,525,367
Interfund services	12,068,664	664,084	2,021,554	14,754,302	2,222,009
Intergovernmental payments	25,497,824	35,679	23,944	25,557,447	229,608
Depreciation	12,525,798	491,583	513,150	13,530,531	2,285,588
Total operating expenses	<u>91,833,192</u>	<u>2,631,514</u>	<u>9,847,285</u>	<u>104,311,991</u>	<u>46,280,153</u>
Operating income (loss)	5,654,897	630,027	(2,296,541)	3,988,383	4,146,113
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment earnings	916,167	25,188	101,846	1,043,201	487,902
State and federal grants	174,701	-	193,020	367,721	2,975
Interest and fiscal charges	(886,813)	(313,789)	(5,131)	(1,205,733)	-
Gain (Loss) on disposal of capital assets	(53,178)	629	-	(52,549)	327,292
Miscellaneous revenue (expense)	745,121	-	101,834	846,955	-
Total nonoperating revenues (expenses)	<u>895,998</u>	<u>(287,972)</u>	<u>391,569</u>	<u>999,595</u>	<u>818,169</u>
Income (loss) before contributions and transfers	6,550,895	342,055	(1,904,972)	4,987,978	4,964,282
Capital contributions	14,452,382	-	-	14,452,382	1,784,892
Transfers in	3,682	500,000	323,009	826,691	1,394,005
Transfers out	(135,305)	-	(243,161)	(378,466)	(58,770)
Change in net position	<u>20,871,654</u>	<u>842,055</u>	<u>(1,825,124)</u>	<u>19,888,585</u>	<u>8,084,409</u>
Special item - Annexation	3,942,708	-	-	3,942,708	-
Change in net position	<u>24,814,362</u>	<u>842,055</u>	<u>(1,825,124)</u>	<u>23,831,293</u>	<u>8,084,409</u>
<b>TOTAL NET POSITION - BEGINNING</b>	405,915,343	(345,991)	17,374,099	422,943,451	40,194,148
Prior period adjustments	1,376,036	5,902,116	81,804	7,359,956	-
<b>TOTAL NET POSITION - ENDING</b>	<u>\$ 432,105,741</u>	<u>\$ 6,398,180</u>	<u>\$ 15,630,779</u>	<u>\$ 454,134,700</u>	<u>\$ 48,278,557</u>

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

**CITY OF VANCOUVER**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2017

Page 1 of 2

	Business-Type Activities - Enterprise Funds				(Governmental
	Major Fund		Other	Total	Activities)
	Water/Sewer	Parking Services	Non-Major Enterprise Funds		Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 97,466,151	\$ 3,129,787	\$ 7,577,511	\$ 108,173,449	\$ 50,335,384
Cash received from other operating activities	53,304	29,956	2,721	85,981	1,163
Cash payments for goods and services	(47,122,036)	(691,620)	(2,900,151)	(50,713,807)	(27,197,344)
Internal activity - between funds	(13,002,424)	(657,083)	(1,969,248)	(15,628,755)	(791,445)
Cash payments to employees	(20,519,662)	(822,494)	(4,524,525)	(25,866,681)	(11,866,929)
Net cash provided by operating activities	16,875,333	988,546	(1,813,692)	16,050,187	10,480,829
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Receipt of grant funds	47,199	-	157,040	204,239	2,975
Unrestricted funds received	503,621	-	101,834	605,455	-
Contracts receivable	313,079	-	-	313,079	-
Transfers from other funds	3,682	500,000	323,009	826,691	1,394,005
Transfers to other funds	(135,305)	-	(243,161)	(378,466)	(58,770)
Net cash provided by noncapital financing activities	732,276	500,000	338,722	1,570,998	1,338,210
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on capital debt	(6,807,359)	(860,000)	(61,790)	(7,729,149)	-
Interest paid on capital debt	(933,249)	(262,243)	(6,963)	(1,202,455)	-
Purchase of capital assets	(12,371,671)	(436,565)	(240,920)	(13,049,156)	(6,855,094)
Proceeds from sale of capital assets	(53,178)	-	-	(53,178)	327,292
Capital contributions	4,762,730	-	-	4,762,730	1,784,892
Net cash used by capital and related financing activities	(15,402,727)	(1,558,808)	(309,673)	(17,271,208)	(4,742,910)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment earnings (losses)	879,461	24,302	100,430	1,004,193	459,100
Net cash provided by investing activities	879,461	24,302	100,430	1,004,193	459,100
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
	3,084,343	(45,960)	(1,684,213)	1,354,170	7,535,229
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>					
	88,005,974	2,741,363	12,672,835	103,420,172	42,738,193
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 91,090,317</u>	<u>\$ 2,695,403</u>	<u>\$ 10,988,622</u>	<u>\$ 104,774,342</u>	<u>\$ 50,273,422</u>
Cash and cash equivalents	\$ 84,903,382	\$ 2,695,403	\$ 10,988,622	\$ 98,587,407	\$ 50,273,422
Restricted cash and cash equivalents	6,186,935	-	-	6,186,935	-
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 91,090,317</u>	<u>\$ 2,695,403</u>	<u>\$ 10,988,622</u>	<u>\$ 104,774,342</u>	<u>\$ 50,273,422</u>

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

**CITY OF VANCOUVER**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2017

Page 2 of 2

	Business-Type Activities - Enterprise Funds				(Governmental Activities)
	Major Funds		Other Non-	Total	Internal Service Funds
	Water/Sewer	Parking Services	Major Enterprise Funds		
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>					
Net operating income (loss)	\$ 5,654,897	\$ 630,027	\$ (2,296,541)	\$ 3,988,383	\$ 4,146,113
Adjustments to reconcile net operating income (loss) to net cash provided by operations:					
Depreciation expense	12,525,798	491,583	513,150	13,530,531	2,285,588
Decrease (increase) in receivables	31,365	(101,798)	29,488	(40,945)	(89,719)
Decrease (increase) in deposits	(230,293)	(36)	15,057	(215,272)	-
Decrease (increase) in inventories	84,177	-	-	84,177	111,709
Increase (decrease) in current payables	613,164	(18,092)	(27,302)	567,770	1,110,922
Increase (decrease) in accrued liabilities	182,031	12,550	81,057	275,638	175,737
Decrease (increase) in receivable from other funds	165,243	2,234	(2,736)	164,741	1,429,065
Decrease (increase) in receivable from other government	-	-	-	-	(37,000)
Increase (decrease) in payables due to other funds	(1,099,003)	4,767	55,042	(1,039,194)	1,499
Increase (decrease) in payable to other government	-	3,563	-	3,563	-
Increase (decrease) in claims and judgments payable	-	-	-	-	1,372,000
Increase (decrease) in pollution remediation estimates	(10,500)	-	-	(10,500)	-
Increase (decrease) in pension liability	(1,041,546)	(36,252)	(180,907)	(1,258,705)	(25,085)
Total adjustments	11,220,435	358,519	482,849	12,061,803	6,334,716
Net cash provided by operating activities	<u>\$ 16,875,333</u>	<u>\$ 988,546</u>	<u>\$ (1,813,692)</u>	<u>\$ 16,050,187</u>	<u>\$ 10,480,829</u>
<b>Noncash investing, financing and capital activities</b>					
Capital assets donated	\$ 6,826,776	\$ -	\$ -	\$ 6,826,776	\$ 1,784,892
Net change in fair value of investments	(196,724)	(5,824)	(23,719)	(226,267)	(108,522)
Capital assets financed with accounts payable	2,007,205	-	-	2,007,205	-

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

**CITY OF VANCOUVER**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**December 31, 2017**

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	Pension Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,538,290	\$ 967,960
Corporate Bond	507,030	-
Receivables:		
Accounts	-	161,012
Interest	18,074	1,765
Due from other governmental units	2,549	188,521
Prepaid expenses	60,000	-
<b>TOTAL ASSETS</b>	<b>12,125,943</b>	<b>1,319,258</b>
<b>LIABILITIES</b>		
Accounts and accrued employee payables	1,760	12,100
Due to other governmental units	37,000	1,307,158
<b>TOTAL LIABILITIES</b>	<b>38,760</b>	<b>1,319,258</b>
<b>NET POSITION</b>		
Restricted for pensions	\$ 12,087,183	\$ -

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

**CITY OF VANCOUVER**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
For The Year Ended December 31, 2017

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	Pension Trust Funds
<b>Additions:</b>	
Employer Contributions	
For pension benefits	\$ 1,556,831
For postemployment healthcare benefits	1,343,173
Other Sources	195,889
Total Contributions	<u>3,095,893</u>
Investment Income	
Interest earnings	<u>84,441</u>
Total Investment Income	<u>84,441</u>
Total Additions	<u>3,180,334</u>
<b>Deductions:</b>	
Pension benefits	833,670
Healthcare premium subsidies	1,343,173
Administrative expense	124,787
Total Deductions	<u>2,301,630</u>
Change in fiduciary net position	878,704
Net position - beginning	<u>11,208,479</u>
Net position - ending	<u><u>\$ 12,087,183</u></u>

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



## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. REPORTING ENTITY

The City of Vancouver was incorporated January 23, 1857. The City operates under a Council-Manager form of government and provides services per its charter adopted February 10, 1952, as last amended November 3, 2015.

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

##### Discretely Presented Component Units:

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

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

On February 27, 2006, the Vancouver City Council passed Ordinance M-3739 creating the City Center Redevelopment Authority (CCRA). CCRA is chartered with facilitating the redevelopment of property thereby promoting economic growth and urban livability within the Vancouver City Center Vision plan area. The CCRA will complement the work of the Downtown Redevelopment Authority (DRA) which is limited by indenture for construction and operation of the Hotel and Convention Center project. The CCRA is an independent legal entity, and its financial activities will be reported as a discretely presented component unit of the City; however, there are no assets or operations to report for fiscal year ending December 31, 2017.

##### Blended Component Unit:

On November 2, 2015, the Vancouver City Council passed Ordinance M-4139 creating the Vancouver Transportation Benefit District (TBD). Boundaries for TBD are identical to the City limits. TBD is a separate legal entity, but has the same governance as the City of Vancouver. Through an Interlocal agreement, funds generated from a vehicle registration fee will be passed to the City and used for transportation improvements that construct, reconstruct, preserve, maintain and operate the existing transportation infrastructure of the City of Vancouver consistent with the Revised Code of Washington (RCW) 36.73. The TBD is presented as a blended component unit of the City.

Unless noted otherwise in this report, the accounting policies of the component units are consistent with those described for the primary government. PFD, DRA and TBD issue separate financial statements which can be obtained from the City of Vancouver, Financial and Management Services, PO Box 1995, Vancouver, WA 98668-1995, or electronically by contacting Monie Holmes, Sr. Accountant at [monie.holmes@cityofvancouver.us](mailto:monie.holmes@cityofvancouver.us).

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

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

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

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

The City reports the following major governmental funds:

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

The *Consolidated Fire Fund* accounts for money received and the expenditures made in providing fire services to the combined City fire departments and Clark County Fire Protection District No.5 service area. The significant resources accounted for in this fund are intergovernmental revenue from Fire District No. 5, charges for services, licenses and permits and an operating transfer from the City's General Fund.

The *Street Fund* is a general government service fund established in accordance pursuant to Revised Code of Washington (RCW) 35A.37.010 for the administration of street-oriented maintenance and construction. Revenues are derived from tax contributions distributed from the General Fund, state shared gasoline tax, an excise tax of ¼ of 1% of property value of transferred property, fines and fees.

The *Transportation Capital Fund* accounts for all capital projects in the Transportation department. Funding for the projects is from grants, bonds, and developer agreements and other public and private sources.

The *Capital Improvement Fund* is to fund major capital improvement projects. Funding is currently derived from interest income, grants and contributions from the General Fund.

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

## CITY OF VANCOUVER

### NOTES TO THE BASIC FINANCIAL STATEMENTS

*Internal service funds* account for services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis. The internal service funds account for the activities of health insurance for employees, fleet, facilities replacement, mail distribution, liability insurance, workers' compensation insurance, and technology services.

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

*Agency funds* represent assets held in a trustee or agency capacity for others and do not report results of operations. The City acts as the collection and disbursing agent for the PEG Capital Support Fund.

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

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

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

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

#### **D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY**

##### **1. Cash and Cash Equivalents**

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

Statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentalities, banker's acceptances, repurchase agreements, and the state treasurer's investment pool. The City is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2017. The Pension Trust Fund is also authorized to invest in corporate bonds rated "A" or better by Standard & Poor's Corporation, or "A" or better by Moody's Bond Ratings. Since the City maintains an internal investment pool, regulatory oversight is performed by the CFO, the Treasurer, and the Treasury accountant. Since the City is a governmental unit, at this point, no other type of regulatory oversight is required.

For the most part, investments for the City, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the State pool is the same as the amortized value of the pool shares. As of December 31, 2017, the City had \$73,297,716 in the Washington State local investment pool and \$324,802 in the Clark County Local Government Investment Pool. The reported value of the County pool is the same as the fair value of the pool. Funds held by the City in both pools were classified as cash equivalents. Interest on these investments are prorated to the various funds.

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

## CITY OF VANCOUVER

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 2. Internal Balance and Receivables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund loan payable" (for the current portion of interfund loans) or "advances to/from other funds" (for the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund receivable and payables is furnished in Note III.C.

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

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

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

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

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

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

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

The City receives federal grant funding from the Department of Housing and Urban Development (HUD). The City utilizes these grant funds in part to operate a loans program in support of low income residents within the City of Vancouver. Loans and respective loan agreements are established with both low income individuals and sub-recipient agencies. The loans receivables balance is \$4,956,040 at December 31, 2017. The majority of these loans are issued with deferred repayment conditions with certain criterion and time commitments triggering immediate repayment of the original loan.

#### 3. Inventories and prepaid items

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. As of December 31, 2017, the City reported no prepaid items.

#### 4. Restricted assets

These accounts contain resources for construction and debt service in enterprise funds. Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they may be maintained in separate bank accounts and their use is limited by applicable bond covenants. The restricted assets totaling \$6,223,731 of the enterprise funds consist of \$6,186,935 in restricted cash and cash equivalents, \$11,239 in restricted interest receivable, \$1,674 in restricted accounts receivable, and \$23,883 in restricted contracts receivable. Specific debt service reserve requirements are described in Note III.E.1.

#### 5. Capital assets

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

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

The cost for normal maintenance and repairs are not capitalized.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

6. Compensated absences

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

7. Other Accrued Liabilities

These accounts consist of accrued wages and employee related benefits and liabilities.

8. Long-term obligations

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

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

9. 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.

10. Unearned revenues

This includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

11. Use of estimates

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

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### 12. Net position and fund balances

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

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

**Net investment in capital assets** represents total capital assets plus deferred outflows of unamortized amounts on refunding less accumulated depreciation less debt directly related to capital assets less unspent bond proceeds.

**Restricted net position** is that component whose use is *not* subject solely to the government's own discretion. Restrictions may be placed on net position by an external third party that provided the resources, by laws or regulations of other governments, by enabling legislation, by endowment agreements, or by the nature of the asset. Unspent bond proceeds for capital projects are used in the calculation of restricted net position.

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

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

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

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

Fund balance is reported as **Committed** for amounts that can be used only for specific purposes with constraints imposed by the highest level of decision-making authority. The City Council meets weekly to conduct legislative business that may impose, modify, or rescind fund balance commitments. Once adopted, the limitation imposed by Council's legislative action remains in place until a similar action is taken to remove or revise the limitation.

The City has established policies requiring that governmental funds be created by the City Council and that each fund in the City shall be adopted by ordinance of the City Council. The City has adopted policies that follow the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, paragraphs 13 to 16. Fund balance amounts outside the General Fund, which are neither nonspendable, restricted, nor committed, are reported as **Assigned** fund balance in the governmental balance sheet. The City Council, or its designee, will designate **Assigned** when necessary. The assignment of fund balance in the General Fund may not result in a deficit in unassigned fund balance.

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

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

## **CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS**

### ***E. ADOPTION OF NEW GASB PRONOUNCEMENTS***

For the fiscal year ended December 31, 2017, the City implemented the following GASB Pronouncements:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans Issued in June, 2015, the objective of this Statement is to improve the usefulness of information included in general purpose external financial reports of state and local governmental OPEB plans. It replaces portions of GASB statement Nos. 25, 43, 57 and 50; and includes requirements for defined contribution and defined contribution OPEB plans administered thru trusts that meet certain requirements. This GASB is not applicable to the City currently; therefore there is no material impact to the City for the adoption of this standard.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14. Issued in January 2016, this Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. There is no material impact to the City for the adoption of this standard.

GASB Statement No. 81, Irrevocable Split-Interest Agreements Issued in March 2016, this Statement improves accounting and financial reporting for irrevocable split interest agreements. There is no material impact to the City for the adoption of this standard.

### ***F. FUTURE ADOPTION OF GASB PRONOUNCEMENTS***

The following GASB pronouncements have been issued, but are not yet effective as of December 31, 2017:

- GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishments Issues*
- GASB Statement No. 87, *Leases*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Payments*

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



**CITY OF VANCOUVER  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

The City prepares a biennial budget for all funds in accordance with the Revised Code of Washington (RCW) chapter 35.33. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America, with the exception of proprietary funds which includes an appropriation for capital outlays and principal payments but does not include appropriations for depreciation expense and pension liability adjustments. All funds except custodial agency funds are budgeted to the fund level. Biennially appropriated budgets are adopted for all funds and lapse at the end of each biennium. However, some of the Special Revenue and Capital funds may carry forward budgeted amounts beyond the biennium for completion of certain projects.

Budgets are adopted at the level of the fund for a biennium, representing the legal expenditure authority. The budget appropriations in the general fund are set at the function level.

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

Year 2017 is the first year of the 2017-2018 Biennium.

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

The calendar below outlines the general time frame followed to prepare, review and adopt 2017-2018 Biennial Budget.

*January- February 2016*

- Prepared the preliminary revenue and expenditure forecast for 2017-2022.
- Reviewed the forecast and the specific assumptions with City Council.
- Identified the direction of the budget process and outlined specific guidelines for departmental submission.
- The budget direction anticipated stability in the immediate future, but potential shortfalls developing in later years of the forecast.

*July-September 2016*

- Reviewed the departmental proposals and prepared budget recommendations for the City Manager.
- Held televised workshops with City Council to review:
  - The budget process and provided a budget reductions overview.
  - The 2017-2022 revenue and expenditure forecast.
  - Input from the public on priority of City services and programs.

*October-November 2016*

- The City Manager's Preliminary Recommended budget was published for public and Council review.
- Filed the City's Preliminary Budget with the City Clerk and made copies available to the public.
- Presented the Preliminary Recommended Budget to City Council in televised workshop sessions and provided Council members with detailed information on the proposed budget.
- A public hearing on the Recommended Budget and related ordinances for fee increases was held on November 7, 2016.

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

State statutes provide for a mid-biennial review and modification of the biennial budget to allow flexibility for addressing issues unanticipated during the budget process. Modifications to the original adopted budget are proposed by departments and reviewed by the Budget Office staff in conjunction with the City Manager and his/her management team. Adoption by the City Council requires a public hearing. There are usually two supplemental appropriations during any fiscal year. These procedures are in accordance with RCW's.



**CITY OF VANCOUVER  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The City has not had any occurrences of excesses of expenditures over appropriations as of December 31, 2017.

**C. DEFICIT NET POSITION/NET FUND BALANCE**

At December 31, 2017, Vancouver Downtown Redevelopment Authority (DRA), a component unit of the City, had a deficit in the fund net position of \$14,124,243. The DRA activities involve the operation of a hotel and convention center in the City's central downtown area. This is a cash flow based project and the negative net position balance is primarily attributed to accumulated depreciation, a non-cash item. Additionally, during the recession the economic environment had a negative impact on the convention and lodging business which is also reflected in the net position change. Deep cost-cutting measures have been put in place now for many years. The Board and the management of the DRA as well as the project monitor activities monthly. A series of revenue generating guidelines and on-going expense reductions have been implemented. The fund continues to improve slightly, while still remaining in a deficit position.

At December 31, 2017, the Self-Insurance Workers Compensation & Liability had a deficit in the fund net position of \$1,498,088. Self-Insurance Workers Compensation & Liability fund accounts for operations of insured and uninsured claims in four areas of risk that include general liability, workers' compensation, unemployment and property. This fund continues to experience expenses that exceed revenues which results in drawing down the net position. This fund first experienced a deficit in 2015. The deficit increased \$1.3 million in 2016, and decreased \$704,867 in 2017. The City has budgeted for rate increases throughout 2017 and 2018, and expects this funds deficit will continue to decrease over the next few years and will return to a positive net position by 2019.

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments are presented on the balance sheet in the basic financial statements at fair value or amortized cost, which approximates fair value, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools.", and in accordance with GASB Statement 72, "Fair Value Measurement and Application".

Activities undertaken by the pool on behalf of the proprietary funds are not part of the operating, capital, investing, or financing activities of the proprietary funds, and details of these transactions are not reported in the Statement of Cash Flows. In general, interest earned from the pooled investments is allocated to each fund based on the average earnings and daily cash balance of each fund. Investments in the State and Clark County Investment Pool are classified as cash equivalents on the financial statements. Any changes in fair value of investments are recognized as an increase or decrease to investment assets and income.

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

<u>Notes</u>	
Investments	\$ 322,058,827
Deposits	3,178,688
Deposits w/fiscal agent, escrow, trust	13,426,026
Total	<u>\$ 338,663,541</u>
<u>Financial Statements</u>	
Cash and cash equivalents	\$ 311,935,255
Cash and cash equivalents – component units	234,017
Cash with fiscal agent/trustee – component units	13,480,989
Fiduciary cash	12,506,250
Fiduciary investments	507,030
Total	<u>\$ 338,663,541</u>

1. Deposits

At year-end, the City's carrying amount of deposits was \$3,178,688 and bank balance was \$4,094,658. The Federal Deposit Insurance Corporation (FDIC) provides unlimited insurance for the City's non-interest bearing deposits and up to \$250,000 insurance on interest bearing deposit and investments through December 31, 2017. All deposits and bank balances not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act of 1969. As of May 31, 2016, the State of Washington Public Deposit Protection Commission Act of 1969 was amended adopting Resolution 2016-1. This resolution was enacted to ease collateral requirements on uninsured public deposits held by Well Capitalized public depositories. This resolution states that well capitalized public depositories may collateralize uninsured public deposits at no less than fifty percent. Public depositories pledging less than one hundred percent collateral on uninsured public deposits shall have their maximum liability increased to twenty-five percent. As a note, Public depositories not categorized as Well Capitalized pursuant to the Federal Deposit Insurance Act are required to continue to fully collateralize uninsured public deposits.

2. Investments

The City maintains an Internal Investment Pool. The Pool has an average maturity of approximately ten months. Some funds are invested for the benefit of the respective fund. Remaining monies are aggregated in a residual account, and invested in the pool for the benefit of all funds. As required by state law, all investments of the City funds are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, or the Clark County Investment Pool. Regulatory oversight is performed by the CFO, the Treasurer, and the Treasury accountant. At the times when City funds are invested in the State Treasurer's Investment Pool or the Clark County Investment Pool, the only limitation on withdrawal is a 24 hour notice for withdrawal of amounts. For the State Treasurer's Investment Pool the notice is required for amounts in excess of \$10 million. However the County has no dollar threshold. Because we are a government, at this point, we do not need any other type of regulatory oversight.

As of December 31, 2017, the fair value of the City's investment portfolio was \$322,058,827 of which \$507,030 was invested on behalf of the Fire Pension Fund, and \$321,551,797 was invested in the City's Internal Investment Pool for the benefit of all funds. Investments of pension funds are not subject to the preceding limitations under state law. The fair value of the investment portfolio is obtained through the City's third-party safekeeping custodian, US Bank Corporate Trust Services, who obtains pricing on Federal Agencies and Corporate Bonds through ICE Intercontinental Exchange Quotes, and uses Standard & Poor's for pricing Municipal Bonds.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

The Washington State Investment Pool operates within the parameters outlined in GASB 79, and qualifies to report investments at amortized cost. The City measures and records its other investments using the fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Securities are valued using observable inputs.
- Level 3: Securities are valued using unobservable inputs.

As of December 31, 2017, the City had the following recurring fair value and amortized cost measurement investments (in thousands):

Investment Type	Level 1	Level 2	Level 3	Amortized Cost	Total Value
County Pool	\$ -	\$ 325	\$ -	\$ -	\$ 325
State Pool	-	-	-	73,298	73,298
Federal Agency Coupon Securities	-	247,929	-	-	247,929
Municipal Bonds	-	507	-	-	507
Total Fair Value	\$ -	\$ 248,761	\$ -	\$ 73,298	\$ 322,059

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

Investment Type	Fair Value	Amortized Cost	Total Value	Weighted Average Maturity (Years)	Percent of Portfolio
County Pool	\$ 325	\$ -	\$ 325	0.000003	0.10%
State Pool	-	73,298	73,298	0.000629	22.76%
Federal Agency Coupon Securities	247,929	-	247,929	0.891383	76.98%
Municipal Bonds	507	-	507	0.001463	0.16%
Total Fair Value	\$ 248,761	\$ 73,298	\$ 322,059		100.0%
Portfolio Weighted Average Maturity				0.893477	

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

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

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Pool's investment objective is to effectively maximize the yield while maintaining liquidity and a stable share price of \$1 per share. The State Pool's portfolio's average maturity was 37 days on December 31, 2017. The State Investment Pool is in an unrated fund. The Clark County Investment Pool is an unrated fund and has oversight by the Clark County Finance Committee. The County Pool's average maturity on December 31, 2017 was 217 days however the City can withdraw its balance on a daily basis.

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

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The ratings of debt securities as of December 31, 2017, are (in thousands):

Investment Type	Fair Value	Not Rated	Aaa	Aa	A
U.S. Government Agencies	\$ 247,929	\$ -	\$ 247,929	\$ -	\$ -
Municipal Bonds	507	-	-	507	-
State Pool	73,298	73,298	-	-	-
Clark County Investment Pool	325	325	-	-	-
Total	\$ 322,059	\$ 73,623	\$ 247,929	\$ 507	\$ -

*Concentration of credit risk:* Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places limits on the amount it may invest in any one issuer depending on the security type of the investment. At the end of 2017, the City's portfolio had the following concentration of securities in it: 19% of Federal Home Loan Bank, 20% of Federal National Mortgage Association, 23% of Federal Farm Credit Bank, and 12% of Federal Home Loan Mortgage Corporation. The City has several investments in government-sponsored enterprises which are not explicitly backed by the federal government. However, the federal government has provided significant support by increasing its investments in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and stated they would not allow these enterprises to fail.

**B. CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2017, is as follows:

	Restated Beginning Balance 01/01/17	Increases	Decreases	Ending Balance 12/31/17
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land and improvements	\$ 83,871,207	\$ 15,868,218	\$ 12,302	\$ 99,727,123
Intangible - easements	8,254,012	278,488	-	8,532,500
Construction in progress	28,822,004	43,128,564	18,062,198	53,888,370
Total capital assets, not being depreciated	120,947,223	59,275,270	18,074,500	162,147,993
Capital assets, being depreciated/depleted:				
Cemetery land	1,101,047	-	-	1,101,047
Buildings	116,801,776	13,801,817	812,908	129,790,685
Machinery and equipment	60,175,039	5,340,996	3,464,226	62,051,809
Infrastructure	630,246,188	36,316,401	141,124	666,421,465
Intangible	8,332,829	350,990	-	8,683,819
Total capital assets being depreciated/depleted	816,656,879	55,810,204	4,418,258	868,048,825
Less accumulated depreciation for:				
Cemetery land	726,143	2,185	-	728,328
Buildings	37,948,646	3,352,849	361,768	40,939,727
Machinery and equipment	45,308,347	4,079,882	3,360,698	46,027,531
Infrastructure	235,032,530	16,486,761	141,124	251,378,167
Intangible	7,638,290	376,678	-	8,014,968
Total accumulated depreciation	326,653,956	24,298,355	3,863,590	347,088,721
Total capital assets, being depreciated, net	490,002,923	31,511,849	554,668	520,960,104
<b>Governmental activities capital assets, net</b>	<b>\$ 610,950,146</b>	<b>\$ 90,787,119</b>	<b>\$ 18,629,168</b>	<b>\$ 683,108,097</b>

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

	Restated Beginning Balance 01/01/17	Increases	Decreases	Ending Balance 12/31/17
<b><i>Business-type activities:</i></b>				
Capital assets, not being depreciated:				
Land and improvements	\$ 33,903,845	\$ 2,687,884	\$ -	\$ 36,591,729
Intangible - Easements	6,969,890	2,127,948	-	9,097,838
Construction in progress	9,490,937	17,609,789	8,047,993	19,052,733
Total capital assets, not being depreciated	50,364,672	22,425,621	8,047,993	64,742,300
Capital assets, being depreciated:				
Buildings and system	35,317,692	322,063	-	35,639,755
Infrastructure	541,717,166	12,370,273	90,003	553,997,436
Machinery and equipment	26,053,041	1,059,048	692,330	26,419,759
Intangible	10,456,912	1,396,212	-	11,853,124
Total capital assets, being depreciated	613,544,811	15,147,596	782,333	627,910,074
Less accumulated depreciation for:				
Buildings and system	15,450,852	846,404	-	16,297,256
Infrastructure	246,993,331	12,061,026	69,571	258,984,786
Machinery and equipment	24,073,412	363,894	617,164	23,820,142
Intangible	9,781,431	259,206	-	10,040,637
Total accumulated depreciation	296,299,026	13,530,530	686,735	309,142,821
Total capital assets, being depreciated, net	317,245,785	1,617,066	95,598	318,767,253
<b>Business-type activities capital assets, net</b>	<b>\$ 367,610,457</b>	<b>\$ 24,042,687</b>	<b>\$ 8,143,591</b>	<b>\$ 383,509,553</b>

The beginning balances of the Governmental and Business-type activities were restated due to prior period corrections found during the year ending December 31, 2017, that were more appropriately reflected as expenses in prior years. For more information on prior period adjustments, see Note IV.K. Balances were restated as follows:

	As Previously Reported 12/31/16	Prior Period Adjustment Net	As Restated 1/1/2017
<b><i>Governmental activities:</i></b>			
Construction in progress	\$ 29,896,254	\$ (1,074,250)	\$ 28,822,004
Infrastructure	631,453,272	(1,207,084)	630,246,188
Less accumulated depreciation			
Infrastructure	235,133,828	(101,298)	235,032,530
Net capital assets subject to adjustment	\$ 426,215,698	\$ (2,180,036)	\$ 424,035,662
<b><i>Business-type activities:</i></b>			
Construction in progress	\$ 12,170,609	\$ (2,679,672)	\$ 9,490,937
Infrastructure	538,007,399	3,709,767	541,717,166
Less accumulated depreciation			
Buildings and system	21,352,968	(5,902,116)	15,450,852
Infrastructure	247,421,077	(427,746)	246,993,331
Net capital assets subject to adjustment	\$ 281,403,963	\$ 7,359,957	\$ 288,763,920

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Depreciation expense as of December 31, 2017, was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government	\$ 991,032
Security of persons & property	2,487,200
Transportation, including depreciation of general infrastructure assets	16,331,899
Physical Environment	14,849
Economic Environment	800,215
Culture and recreation	1,387,571

Capital assets held by the government's internal service funds are charged to various functions based on their usage of the assets 2,285,589

Total depreciation expense — Governmental Activities \$ 24,298,355

**Business-type Activities:**

Water/Sewer	\$ 12,525,798
Airport	233,704
Building Inspection	243,137
Solid Waste	10,216
Parking	491,583
Tennis Center	26,093

Total depreciation expense — Business-type Activities \$ 13,530,531

Component Units

A summary of capital asset activity for component units for the year ended December 31, 2017, is as follows:

	Beginning Balance 01/01/17	Increases	Decreases	Ending Balance 12/31/17
<b>Vancouver Downtown Redevelopment Authority</b>				
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 84,129	\$ 1,230,462	\$ 73,050	\$ 1,241,541
Capital assets, being depreciated:				
Buildings and system	51,462,201	-	-	51,462,201
Machinery and equipment	7,012,813	73,050	-	7,085,863
Total capital assets, being depreciated	58,475,014	73,050	-	58,548,064
Less accumulated depreciation for:				
Buildings and system	13,351,171	1,286,556	-	14,637,727
Machinery and equipment	4,571,586	424,160	-	4,995,746
Total accumulated depreciation	17,922,757	1,710,716	-	19,633,473
Total capital assets, being depreciated, net	40,552,257	(1,637,666)	-	38,914,591
<b>Business-type activities capital assets, net</b>	<u>\$ 40,636,386</u>	<u>\$ (407,204)</u>	<u>\$ 73,050</u>	<u>\$ 40,156,132</u>

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

	Beginning Balance 01/01/17	Increases	Decreases	Ending Balance 12/31/17
<b>Vancouver Public Facilities District</b>				
<b><i>Business-type activities:</i></b>				
Capital assets, not being depreciated:				
Land and improvements	\$ 3,603,691	\$ -	\$ -	\$ 3,603,691

Depreciation expense was charged to the Vancouver Downtown Redevelopment Authority for the year ending December 31, 2017, for \$1,710,716.

**C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Loans between funds are classified as interfund loans receivable or payable or as advances to and from other funds on the statement of net position. Within the City, one fund may borrow from another when specifically authorized by the City Council resolution. The interfund balances are in place to eliminate a temporary negative cash position.

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. The following table displays Due to and Due from activity outstanding as of December 31, 2017:

	Due from Other Funds	Due to Other Funds
<b><i>Governmental Activities</i></b>		
General Fund	\$ 170,084	\$ 200,968
Consolidated Fire Funds	168,416	5,932
Street Fund	372,351	376,982
Transportation Capital Fund	408,220	394,280
Capital Improvement Fund	10,000	28,538
Non-Major Governmental Funds	59,990	213,842
Subtotal Governmental Activities	1,189,061	1,220,542
Internal Service Funds	234,295	3,753
Governmental Activities	1,423,356	1,224,295
<b><i>Business Activities</i></b>		
Water/Sewer Funds	114,367	250,499
Parking Services Fund	-	5,632
Non-Major Business Type Activities	2,736	60,033
Subtotal Business Activities	117,103	316,164
Total Governmental and Business Activities	\$ 1,540,459	\$ 1,540,459

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Transfers In	Transfers Out									Total
	General Fund	Fire Fund	Street Fund	Transportation Capital Fund	Capital Improvement Fund	Non-Major Govt Funds	Water Sewer	Non-Major Enterprise Funds	Internal Service Funds	
General Fund Consolidated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 742,218	\$ 8,981	\$ 108,571	\$ 584	\$ 860,354
Fire Fund	29,078,412	-	13,929	-	-	-	37,658	3,071	2,847	29,135,917
Street Fund	13,710,998	-	-	-	-	1,059,917	-	108,440	-	14,879,355
Transportation Capital Fund	220,862	-	365,582	-	-	2,531,251	-	-	-	3,117,695
Capital Improvement Fund	5,016,648	591,387	-	-	-	52,691	-	19,397	-	5,680,123
Non-Major Govt Funds	8,083,276	312,750	651,144	301,454	188,247	6,888,581	-	-	-	16,425,452
Water/Sewer Funds	-	-	-	-	-	-	-	3,682	-	3,682
Parking Services Fund	500,000	-	-	-	-	-	-	-	-	500,000
Non-Major Enterprise Funds	323,009	-	-	-	-	-	-	-	-	323,009
Internal Service Funds	1,250,000	-	-	-	-	-	88,666	-	55,339	1,394,005
Total	\$ 58,183,205	\$ 904,137	\$ 1,030,655	\$ 301,454	\$ 188,247	\$ 11,274,658	\$ 135,305	\$ 243,161	\$ 58,770	\$ 72,319,592

There were no significant transfers made during 2017 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer. Transfers are used to 1) fund construction and maintenance projects, 2) move certain revenue source to debt service funds for principal and interest payments and 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with laws, regulations or contracts.

### D. LEASE AGREEMENTS

#### 1. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in City's statement of net position. For the year ended December 31, 2017, the costs for such leases were \$366,498 and \$118,311 for governmental and business-type activities, respectively.

The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2017:

	Governmental Activities	Business-type Activities
2018	\$ 201,910	\$ 6,000
2019	207,736	6,000
2020	213,730	6,000
2021	149,342	3,500
2022	103,174	-
2023-2027	560,023	-
2028-2032	641,380	-
2033-2034	209,518	-
	<u>\$ 2,286,813</u>	<u>\$ 21,500</u>



**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. City as Lessor

The City is the lessor for some non-cancelable operating leases for facilities and property located within the City limits. Expiration dates range between 2018 and 2056.

The following is a schedule of the minimum future rental income required under these leases:

	Governmental Activities	Business Type Activities
2018	\$ 2,134,479	\$ 279,036
2019	1,915,946	135,396
2020	1,745,205	8,604
2021	807,435	6,453
2022	211,169	-
2023-2027	144,283	-
2028-2032	144,282	-
2033-2037	144,278	-
2038-2042	144,278	-
2043-2047	144,278	-
2048-2052	144,278	-
2053-2056	115,422	-
	<u>\$ 7,795,333</u>	<u>\$ 429,489</u>

**E. LONG-TERM DEBT**

1. BONDS AND DEBT:

General Obligation Bonds

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

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

General obligation bonds currently outstanding (in thousands) are as follows:

Name of Issuance	Purpose	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2002 LTGO Bond	Governmental Activities & Business Type Activities Refunding	\$ 39,365	10/23/2002	12/1/2018	2%-5.25%	\$ 2,290
2005 LTGO Bond	Governmental Activities & Business Type Activities Refunding	18,090	7/15/2005	12/1/2018	3%-5%	1,810
2009 LTGO Bond	Governmental Activities	12,970	6/1/2009	12/1/2018	3.5%-5%	620
2010 LTGO Bond	Governmental Activities	13,410	12/1/2010	12/1/2035	2.0%-5.125%	8,625
2011 LTGO Bond	Governmental Activities	10,515	6/1/2011	12/1/2035	2.0%-5.125%	8,700
2012A LTGO Bond	Governmental Activities Refunding	15,945	1/12/2012	12/1/2029	2.0%-3.75%	13,275
2012B&C LTGO Bond	Governmental Activities Refunding and Business Type Activities Refunding	9,515	12/12/2012	12/1/2025	0.61%-2.89%	9,285
2015A LTGO Bond	Governmental Activities	1,297	6/15/2015	12/1/2028	3.64% - 4.7%	1,297
2015B LTGO Bond	Governmental Activities & Refunding	23,100	6/15/2015	12/1/2034	2.0% - 5.0%	21,440
2016 LTGO Bond	Governmental Activities Refunding	7,810	6/22/2016	12/1/2028	2.0% - 4.0%	7,745
Total General Obligation Bonds		<u>\$ 152,017</u>				<u>\$ 75,087</u>

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2018	\$ 7,060	\$ 2,757	\$ 9,817	\$ 966	\$ 222	\$ 1,188
2019	5,630	2,442	8,072	945	173	1,118
2020	5,020	2,268	7,288	960	156	1,116
2021	4,675	2,126	6,801	985	135	1,120
2022	4,874	1,919	6,793	1,010	112	1,122
2023-2027	24,497	6,743	31,240	3,165	180	3,345
2028-2032	10,630	2,442	13,072	-	-	-
2033-2035	4,670	426	5,096	-	-	-
	<u>\$ 67,056</u>	<u>\$ 21,123</u>	<u>\$ 88,179</u>	<u>\$ 8,031</u>	<u>\$ 978</u>	<u>\$ 9,009</u>

The City's legal limit of indebtedness is 1½% of assessed property value without a vote of the taxpayers and an additional 1% with a vote of the taxpayers. At December 31, 2017, the remaining non-voted and voted remaining capacity for indebtedness was \$304,950,903 and \$209,796,121 respectively.

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

Name of Issuance	Purpose	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2006 PWTF	Governmental-Type Activities	\$ 2,200	11/30/2006	7/1/2026	1%	\$ 1,048
Section 108 HUD Loan	Governmental-Type Activities	5,419	7/7/2010	8/1/2029	0.28%-3.70%	2,980
Clark County-Annexation Obligation	Governmental-Type Activities	344	8/1/2017	4/1/2022	0%	318
		<u>\$ 7,963</u>				<u>\$ 4,346</u>

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

	Governmental Activities		
	Principal	Interest	Total
2018	\$ 401	\$ 85	\$ 486
2019	405	81	486
2020	410	76	486
2021	415	71	486
2022	414	65	479
2023-2027	1,741	217	1,958
2028-2029	560	28	588
	<u>\$ 4,346</u>	<u>\$ 623</u>	<u>\$ 4,969</u>

At December 31, 2017, the City had \$0 available in the G.O. debt service fund balance. Several other funds are responsible for payment of the GO bonded debt. Through the budget appropriation process, arrangements are made for transfers from those funds to the debt service funds prior to payment of the debt.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### Special Assessment Debt

The government also issues special assessment debt to provide funds for the construction of street safety improvements in connection with a train noise quiet zone. Special assessment bonds are created by ordinance, adopted by Council, and financed by assessments on property owners. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The City's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has a Local Improvement District Guaranty Fund to finance any uncollectible special assessment debt. Special assessment debt with a governmental commitment reported at year end (in thousands) is as follows:

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
LID 545 Assessment Bond	\$ 312	9/23/2014	9/23/2036	3.45%	\$ 75
<i>Total Assessment Debt</i>	<u>\$ 312</u>				<u>\$ 75</u>

The amount of delinquent receivables at December 31, 2017, was \$3,469.

Special assessment bonds are serial bonds and are called yearly based on assessments received. The City is recording a \$30,000 current portion on the Special Assessment (LID) debt in 2018 out of financial due diligence. The City is not required to call these bonds in 2018; however, has the authority to call these bonds annually if deemed financially prudent to do so. Annual debt service requirements to maturity for special assessment bonds are (in thousands) as follows:

Governmental Activities			
	Principal	Interest	Total Requirements
2018 \$	-	\$ 3	\$ 3
2019	-	3	3
2020	-	3	3
2021	-	3	3
2022	-	3	3
2023-2027	-	17	17
2028-2032	-	17	17
2033-2036	75	14	89
Total \$	<u>75</u>	<u>\$ 63</u>	<u>\$ 138</u>

The Local Improvement District Debt Service Fund and the Local Improvement District Guaranty Debt Service Fund have cash balances of \$17,828 and \$33,165, respectively, to service the local improvement district bonds.

The first required principal payment for the LID debt is due in 2036. The City, however, is anticipating calling \$30,000 or more during the fiscal year ending December 31, 2018, as funds become available.

The LID bonds are secured by a pledge of the Assessments levied by the City against the benefited properties within LID 545. In addition, the Bonds and any other local improvement bonds heretofore or hereafter issued by the City are secured by funds on deposit in the Guaranty Fund.

The Bonds are not obligations of the State of Washington or any other municipal corporation other than the City and are payable solely from the sources specified in the Bond Ordinance. Neither the full faith and credit nor the taxing power of the City are pledged to the payment of the Bonds. The Bonds are not general obligations of the City. Neither the holder nor the owner of any Bond or warrant issued against the Guaranty Fund shall have any claim therefor against the City, except for payment from the Assessments and except also for payment from the Guaranty Fund. The City shall not be liable to the holder or owner of any Bond or warrant for any loss to the Guaranty Fund occurring in the lawful operation thereof.

Payment of the principal and interest on the Bonds is, in the first instance, dependent on the ability of property owners within LID 545 to pay the Assessments levied on their properties. The City does not and cannot make any representations as to the ability of the current or subsequent property owners in LID 545 to pay their Assessments. Bondholders' remedies against the City are confined to mandating City officials to perform their statutory duties in enforcing the Assessments and applying the proceeds thereof and, if necessary, any money on deposit in the Guaranty Fund to the payment of the principal of and interest on the Bonds.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### Revenue Bonds

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

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

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2004 Water Sewer Refunding	26,250	2/26/2004	6/1/2020	2%-5%	9,795
2005 Water Sewer Refunding	42,520	4/4/2005	6/1/2018	3%-5.5%	4,785
Total Revenue Bonds	<u>\$ 68,770</u>				<u>\$ 14,580</u>

### **Business Type Activities:**

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

	Principal	Interest	Total Requirements
2018 \$	7,090	\$ 564	\$ 7,654
2019	3,650	283	3,933
2020	3,840	96	3,936
\$	<u>14,580</u>	<u>\$ 943</u>	<u>\$ 15,523</u>

The reserve and redemption accounts of the Water/Sewer enterprise funds have \$5,195,420 available to service the revenue debt, plus the city has purchased surety dollars in addition to meet debt service reserve requirements.

Water/Sewer revenue bond covenants require that revenue available for debt service (defined as operating and non-operating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.3 to 1. The City remains in compliance with that provision with a current ratio of 5.56 to 1 coverage. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

## 2. COMPENSATED ABSENCES AND IMPACT FEE CREDITS:

### Compensated Absences

Accumulated amounts of vacation leave are accrued as expenses when incurred in the government-wide and proprietary fund financial statements. At December 31, 2017, the recorded liability for compensated absences amounted to \$11,533,967 with \$9,135,218 recorded in governmental activities and \$2,398,749 recorded in business-type activities. City employees receive personal time off (PTO), vacation and sick leave time at rates established by City policy or union agreement. PTO is accrued semi-monthly by employees at an annual rates ranging from 22.5 to 39.5 days depending upon tenure. Vacation is accrued semi-monthly by employees at annual rates ranging from 15 to 36 days depending upon tenure and union agreements. Accumulated PTO and vacation carryover between years is limited, generally, to twice an employee's current year accrual. Sick leave accruals vary, depending upon union agreement, between 10 and 24 hours per month. City Policy and all contracts provide for a payoff of sick leave in some instances. Employees who are not covered by contract and were age 50 or who had more than 14 years of service as of January 1, 1980 may qualify for payoff of up to 50% of their sick leave balance at retirement. Employees who are covered by either the Joint Labor Coalition, AFSCME or OPEIU contracts and were hired prior to January 1, 1980 may qualify for 50% payoff of their sick leave balance at retirement. Employees covered under law enforcement contracts and who were hired prior to January 1, 1981, and employees covered by fire suppression and command contracts and who were hired prior to January 1, 1983, may qualify for 50% payoff of their sick leave balance at retirement, or 25% upon leaving the employer in good standing for reasons other than retirement. For the governmental activities, compensated absences are generally liquidated by operating funds, such as the General Fund and Consolidated Fire funds.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### Impact Fee Credits

In 1995, the City of Vancouver adopted an impact fee ordinance to ensure that adequate facilities are available to serve new growth and development. An impact fee is charged at the issuance of a building permit. In addition, the developer may be entitled to a non-refundable "credit" against the applicable impact fee component for the fair market value of appropriate dedications of land, improvements or new construction of system improvements provided by the developer. In the event that the amount of the "credit" is calculated to be greater than the amount of the impact fee due, the developer may apply the excess "credit" toward future impact assessment on other developments within the same service district. As of December 31, 2017, the amount of credits that may be applied against future impact fees is \$19,163,313. This is recorded as a governmental activity in the Government-Wide Financial Statements.

### 3. CHANGES IN LONG TERM LIABILITIES:

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

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Due Within One Year
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 73,924,246	\$ -	\$ 6,868,210	\$ 67,056,036	\$ 7,059,536
Issuance premiums	5,385,548	-	569,802	4,815,746	536,093
Issuance discounts	(26,288)	-	(1,468)	(24,820)	(1,467)
Total GO bonds payable	79,283,506	-	7,436,544	71,846,962	7,594,162
Special assessment debt w with governmental commitment	110,000	5,000	40,000	75,000	30,000
Government loans	4,364,704	317,589	336,469	4,345,824	400,614
Claims and judgements	5,464,000	3,285,630	1,913,630	6,836,000	1,946,343
Net OPEB Obligation	9,901,702	3,009,787	1,340,672	11,570,817	-
Net Pension Liability	23,591,131	-	4,038,519	19,552,612	-
Compensated absences	8,465,230	8,288,694	7,618,706	9,135,218	8,221,698
Impact Fee Credit	18,488,771	3,250,000	2,575,458	19,163,313	454,506
Governmental activity long-term liabilities	<u>\$ 149,669,044</u>	<u>\$ 18,156,700</u>	<u>\$ 25,299,998</u>	<u>\$ 142,525,746</u>	<u>\$ 18,647,323</u>
<b>Business-type activities</b>					
Bonds payable:					
General obligation bonds	\$ 8,952,254	\$ -	\$ 921,790	\$ 8,030,464	\$ 965,464
Revenue bonds	21,300,000	-	6,720,000	14,580,000	7,090,000
Issuance premiums (discounts)	900,874	-	444,659	456,215	272,948
Total bonds payable	31,153,128	-	8,086,449	23,066,679	8,328,412
Government loans	87,360	-	87,360	-	-
Environmental remediation	420,000	-	420,000	-	-
Net Pension Liability	16,226,044	-	3,848,815	12,377,229	-
Compensated absences	2,201,902	2,178,559	1,981,712	2,398,749	2,158,873
Business-type activity long-term liabilities	<u>\$ 50,088,434</u>	<u>\$ 2,178,559</u>	<u>\$ 14,424,336</u>	<u>\$ 37,842,657</u>	<u>\$ 10,487,285</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$1,124,639 of internal service funds compensated absences are included in the above amounts. For the governmental activities, claims and judgments and compensated absences are generally liquidated by operating funds, such as the General Fund, Consolidated Fire and the Street funds. The General Fund provides funding for the payment of benefits related to OPEB.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### 4. COMPONENT UNIT DEBT:

In 2003, the Downtown Redevelopment Authority (DRA), a component unit of the City, issued bonds in which it pledged income derived from the acquired or constructed assets to pay debt service. The revenue bonds were authorized by resolution adopted by the DRA Board, and financed from operating revenues. The revenue bonds were issued to finance construction of the Conference Center and Hotel capital project. In June 2013, the remaining outstanding balance of \$63,105,000 of the 2003 DRA Revenue bonds were refunded by issuing two series of revenue refunding bonds.

Resolution No. 2013-05-14-1, by the DRA Board, authorized \$41,185,000 for Conference Center Project Refunding Revenue Bonds. The Project Revenue Bonds are payable primarily from Project Revenues received by the Authority. In addition, the City has agreed pursuant to the Amended and Restated Payment Agreement, dated June 1, 2013, between the City and the Authority to make payments to the Trustee from any available funds if and to the extent necessary to pay debt service on the 2013 Project Revenue Bonds. The 2013 Amended and Restated Payment Agreement provides that if on the 10<sup>th</sup> business day prior to each interest payment date or principal payment date, if there is not sufficient money on deposit with the Trustee in the Project Revenue Bonds Debt Service Account as required by the Indenture, the City shall pay to the Trustee, in immediately available funds, on or prior to the 5<sup>th</sup> business day prior to the debt service date, the amount of any such deficiency; provided that the aggregate amount of such payments by the City to the Trustee in any calendar year shall not exceed the amount with respect to such calendar year listed in Note IV.B.1. The contingent payment amounts equal the annual debt service payments on the Project Revenue Bonds. Any payment by the City of the Conditional Payment Amount to pay interest and/or principal on the 2013 Project Revenue Bonds will constitute a loan by the City to the Authority, with interest payable on such amounts at the rate or rates on such 2013 Project Revenue Bonds and the City shall have full rights of subrogation.

The City shall take such action as may be necessary under the Amended and Restated Payment Agreement to include all payments due in its operating budget for each fiscal year commencing on and after the date of execution, and to make all appropriations for such payments at such time and in such manner and amounts as may be necessary in order to make all debt service payments when due.

In addition, \$18,045,000 of DRA Conference Center Project Sales and Lodging Tax Refunding Revenue Bonds were issued in June 2013. These bonds were authorized by Resolution No. 2013-05-14-1 by the DRA Board. The Tax Revenue Bonds are payable primarily from 1) certain proceeds of special sales and use taxes imposed by the Vancouver Public Facilities District (the "City PFD") and the Clark County Public Facilities District (the "County PFD"); 2) certain proceeds of a special lodging tax levied by the City (the "Lodging Tax Revenues"); and 3) certain amounts of certain funds and accounts established under the Indenture. The Sales Taxes imposed by the City PFD will expire March 2026 and the Sales Tax imposed by the County PFD will expire March 2028. Lodging Tax Revenues will continue to be pledged for payment of principal and interest on the Tax Revenue Bonds until the final maturity of this bond series.

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

#### **Outstanding DRA Revenue Bond Debt**

Name of Issuance	Original Debt	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
2013 DRA Conference Center Project Refunding Revenue Bonds	\$ 41,185	6/27/2013	1/1/2044	4.38%	\$ 40,725
2013 DRA Conference Center Project Sales & Lodging Tax Refunding Revenue Bonds	18,045	6/27/2013	1/1/2034	4.05%	16,520
<i>Total Revenue Bonds</i>	<u>\$ 59,230</u>				<u>\$ 57,245</u>

In order to make the 2013 refunding economically viable, ACA Financial Guaranty Corporation (original insurer of the 2003A Bonds) contributed \$4,000,000 to the Authority, \$1,430,555 of which is in consideration of the execution of a Note issued by the Authority to ACA, and the balance of which is in consideration for the elimination of any exposure ACA may have in respect to the Series 2003A Bonds. This Note is subordinate to the Project Revenue and Tax Revenue Bonds. There is a note associated with this contribution. Depending on the cash flows of the project, payments may start on January 1, 2033.

Under an Interlocal agreement with the Clark County PFD, DRA is liable to the Clark County PFD for state sales credit monies received by the DRA. Payments under this agreement are received by Clark County PFD monthly and forwarded to the DRA. This creates a liability for the DRA to repay these funds via two methods. The first is a predetermined tax cap in the 2003A Bond Indenture, which is carried forward to the 2013 Bond Indenture. The tax cap amount changes each year through 2034, for Clark County PFD, Vancouver PFD, and City of Vancouver lodging taxes, so that the funds in excess of the tax cap are returned to the Clark County PFD. The second method occurs after funds flow through the 2003A (replaced by the 2013 Bond Indenture) distribution requirements. The monies available in the end are split equally between the Authority and the Clark County PFD, and any amounts so distributed to the Clark County PFD will decrease the DRA liability to Clark County PFD after each payment.

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

DRA 2013 Project Revenue Bonds and the DRA 2013 Tax Revenue Bond debt service requirements to maturity are as follows:

	2013 Project Revenue Refunding Bonds			2013 Tax Revenue Refunding Bonds		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2018	\$ 360,000	\$ 1,778,063	\$ 2,138,063	\$ 860,000	\$ 730,350	\$ 1,590,350
2019	740,000	1,761,562	2,501,562	945,000	685,225	1,630,225
2020	895,000	1,737,038	2,632,038	1,035,000	635,725	1,670,725
2021	920,000	1,700,611	2,620,611	1,130,000	581,600	1,711,600
2022	965,000	1,653,487	2,618,487	1,230,000	522,600	1,752,600
2023-2027	5,615,000	7,472,188	13,087,188	7,295,000	1,671,850	8,966,850
2028-2032	7,035,000	6,060,612	13,095,612	2,930,000	565,979	3,495,979
2033-2037	8,595,000	4,452,619	13,047,619	1,095,000	53,838	1,148,838
2038-2042	10,640,000	2,355,300	12,995,300	-	-	-
2043-2044	4,960,000	225,675	5,185,675	-	-	-
	<u>\$ 40,725,000</u>	<u>\$ 29,197,155</u>	<u>\$ 69,922,155</u>	<u>\$ 16,520,000</u>	<u>\$ 5,447,167</u>	<u>\$ 21,967,167</u>

The subordinate note to ACA, as described above, debt service requirements to maturity are estimated as follows:

	Other long-term loans and notes payable		
	Principal	Interest	Total Requirements
2018	\$ -	\$ -	\$ -
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023-2027	-	-	-
2028-2032	-	-	-
2033-2037	287,670	277,450	395,845
2038-2042	711,847	842,929	1,308,570
2043-2044	431,037	572,228	1,418,746
	<u>\$ 1,430,554</u>	<u>\$ 1,692,607</u>	<u>\$ 3,123,161</u>

Component Units Changes in Long Term Liabilities

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

	Restated Beginning Balance 1/1/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 58,330	\$ -	\$ 1,085	\$ 57,245	\$ 1,220
Premiums (discounts)	505	-	28	477	29
Due to other governments	7,770	1,653	1,525	7,898	-
Total bonds payable	66,605	1,653	2,638	65,620	1,249
Other long-term loans and notes	1,431	-	-	1,431	-
Subordinate management fee (see note IV.B.3 for more detail)	701	-	108	593	108
Component units long term liabilities	<u>\$ 68,737</u>	<u>\$ 1,653</u>	<u>\$ 2,746</u>	<u>\$ 67,644</u>	<u>\$ 1,357</u>

The January 1, 2017 beginning balance was restated due to errors made in previous years.

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**F. FUND BALANCE AND NET POSITION REPORTING**

The City of Vancouver implemented GASB Statement no 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to improve the usefulness and understandability of governmental fund balance information. It provides more clearly defined categories to make the nature and extent of constraints placed on a government's fund balance more transparent. It also clarifies the existing fund type definitions to improve the comparability of governmental fund financial statements and help users better understand the purpose for which governments have chosen to use particular funds for financial reporting. Categories of fund balance are described in Note I.D.12

Fund balances by classification for the year ended December 31, 2017, are as follows:

Fund Balance Classifications	General Fund	Consolidated Fire Fund	Street Fund	Transportation Capital Fund	Capital Improvement Fund	Non-major Governmental Funds	Total Governmental Funds
<b>Restricted</b>							
Federal grants	\$ 23,943	\$ -	\$ -	\$ -	\$ -	\$ 5,055,248	\$ 5,079,191
Capital purposes	-	-	-	-	-	27,124,614	27,124,614
Economic development	-	-	-	-	-	10,366,006	10,366,006
Security/ safety services	-	14,333,706	-	-	-	1,666,370	16,000,076
Debt service	-	-	-	-	-	64,261	64,261
Culture and recreation	-	-	-	-	-	46,391	46,391
	<u>23,943</u>	<u>14,333,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,322,890</u>	<u>58,680,539</u>
<b>Committed</b>							
Capital purposes	6,332,654	-	-	6,944,075	-	-	13,276,729
Emergency reserves	11,564,639	-	-	-	-	-	11,564,639
Revenue stabilization	3,848,656	-	-	-	-	-	3,848,656
Economic development	-	-	-	-	-	1,461,477	1,461,477
Cemetery	-	-	-	-	-	454,205	454,205
Street-oriented maintenance and construction	-	-	12,688,862	-	-	-	12,688,862
	<u>21,745,949</u>	<u>-</u>	<u>12,688,862</u>	<u>6,944,075</u>	<u>-</u>	<u>1,915,682</u>	<u>43,294,568</u>
<b>Assigned</b>							
Working capital	31,632,792	-	-	-	-	-	31,632,792
Debt service	-	-	-	-	-	2,620,987	2,620,987
Capital purposes	-	-	-	-	4,068,295	7,195,768	11,264,063
Economic development	112	-	-	-	-	63,738	63,850
Security/ safety services	142,364	-	-	-	-	-	142,364
Compensated absences	4,018,652	-	-	-	-	-	4,018,652
	<u>35,793,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,068,295</u>	<u>9,880,493</u>	<u>49,742,708</u>
<b>Unassigned</b>	<u>9,814,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,814,947</u>
<b>Total</b>	<u>\$ 67,378,759</u>	<u>\$ 14,333,706</u>	<u>\$ 12,688,862</u>	<u>\$ 6,944,075</u>	<u>\$ 4,068,295</u>	<u>\$ 56,119,065</u>	<u>\$ 161,532,762</u>

Stabilization Arrangements

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

The Emergency Reserve is specifically to be used for large-scale events where damage in excess of \$1 million is incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, etc.).

Revenue Stabilization funds are specifically used to provide funding to temporarily offset unexpected external mandates and reductions in state shared revenues to ensure the City has adequate time to restructure its operations in a deliberate manner to ensure continuance of critical city activities.

Restricted Component of Net Position

The government-wide statement of net position reports \$86,757,537 of restricted component of net position, of which \$30,454,107 is restricted by enabling legislation.



**CITY OF VANCOUVER  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE IV. OTHER DISCLOSURES**

**A. RELATED PARTY TRANSACTIONS**

In December 2004, the Downtown Redevelopment Authority, a component unit of the City of Vancouver, began construction of a Convention Center and Hotel in downtown Vancouver. The project was funded by proceeds from the sale of tax exempt bonds issued by the Vancouver Downtown Redevelopment Authority. The bonds were secured by project revenues, together with a credit from the State of Washington equal to 0.033% of 1% of the sales and use tax collected within the City and Clark County, and a dedication of 50% of the lodging taxes collected within the City. During 2017, the City recognized \$1,219,038 in expenditures associated with lodging tax revenues dedicated to the project.

**B. CONTINGENCIES AND COMMITMENTS**

Litigation

The City has recorded in its financial statement all material liabilities. The City is contingently liable in five pending litigation claims which are not yet resolved but where, based on available information, management believes it is reasonably possible that a liability has been incurred. There are three employment related claims and two public injury claims. However, the effect of the liabilities has not been reflected in the financial statements because they cannot be estimated at this time.

Grants

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

Contract Commitments

The City has active contracts for professional services and construction projects as of December 31, 2017. The professional services contracts are primarily for operations of a sewer treatment facility, architectural, engineering and technology contracts. These construction projects include large transportation and infrastructure projects and facility projects. Significant City commitments to contracts as of fiscal year end totals approximately \$123,431,000.

Related Party Commitments:

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

The City signed an agreement on December 1, 2003, to participate in the construction and operation of the Vancouver Conference Center, using tourism funds.

In June 2013, the DRA refinanced the debt associated with the construction of the Vancouver Conference Center. As a part of the refinancing, the City agreed that, if, prior to each Interest Payment Date or Principal Payment Date, the amounts on deposit with the Trustee in the Project Revenue Bonds Debt Service Account and in the Authority Reserve Account are insufficient to pay the principal and interest due on the 2013 Project Revenue Bonds, upon notice of such deficiency from the Trustee, the City shall pay to the Trustee an amount equal to the deficiency; the maximum obligation on that payment date being the debt service amount of the 2013 Project Revenue Bonds due on such date, as described in Note III.E.

Any payment by the City of this conditional payment amount shall constitute a loan by the City to the DRA, with interest payable on such amounts at the rate or rates on the 2013 Project Revenue bonds.

During 2017, the City made no payments under its contingent payment obligation. The city has no current expectation of having to make any such payments, as it expects project revenues and tax revenues to be sufficient for such purposes.

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

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

Under the terms of the interlocal, the amount of the City's pledge is reduced by the amount of any rental reduction the County grants to the amphitheater lessee. In July of 2008, the County reduced the rental rates for the amphitheater to such an extent that this commitment has been reduced to zero.

## **CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

### **3. Commitment to Hilton Hotel, with respect to the Subordinate and Super-subordinate Management Fees**

The DRA signed an agreement on December 1, 2003, for the operation of the Vancouver Conference Center. In that agreement, during the fourth full year of operation, which was 2009, the Manager of the Vancouver Conference Center (Hilton Hotels) would earn a subordinate management fee for its services. These fees would be paid subject to the availability of amounts in the Subordinate Management Fee Fund. Also, during the sixth full year of operation, the Manager would earn a super-subordinate management fee for its services. These fees would be paid subject to the availability of amounts in the Super-subordinate Management Fee Fund. Hotel operating results prior to the DRA debt refinancing completed in June 2013, were not sufficient to funds these fees.

As part of the refinancing of the DRA debt in June 2013, a new agreement was signed with the Manager of the Vancouver Conference Center (Hilton Hotels) that provides for forgiveness of the above fee amounts over a 10-year period, on a straight-line basis. The forgiveness of these fees is recorded as a Special Item, Gain on Extinguishment of Debt on the Statement of Activities. During 2017, \$107,813 had been forgiven. The outstanding obligation recorded on the Statement of Net Position as of December 31, 2017, is \$592,971.

### **4. Commitment to the IRS, with respect to Arbitrage**

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. The City of Vancouver carefully monitors its investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2017, the City has no arbitrage rebate liability.

## **C. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

### Joint Ventures

#### *Clark Regional Emergency Services Agency (CRESA)*

The City is involved in a joint venture with ongoing financial responsibilities with other governmental entities in the establishment and operation of the CRESA. CRESA was created under the Interlocal Cooperation Act (RCW 39.4) by agreement between the City and other governmental units and political districts. Its purpose is to provide a consolidated public safety communications service to participating cities, political districts, and Clark County. Participating governmental entities have representation on the CRESA board. Clark County maintains the accounting records for CRESA. Detailed financial statements for this entity can be obtained from Clark Regional Emergency Services Agency at 710 W 13<sup>th</sup> St, Vancouver, WA 98660-2810. In prior years this was treated as a joint venture with a financial interest recorded as an asset on the statement of net position. See Note IV.K for disclosure of removing the asset as a prior period adjustment.

In October 2017, Clark County passed Ordinance 2017-10-08 which created Clark Regional Emergency Services Agency Public Authority (CRESA-PA) under RCW35.21.730-759. The City and other participating governments have representation on the CRESA-PA board. The City has not signed the service agreement with CRESA-PA as of the date of this report.

### Jointly Governed Organizations

#### *Council for the Homeless*

The City, Clark County, and the Vancouver Housing Authority entered into an Intergovernmental Cooperation Act (RCW 39.4) on December 20, 1989, for the establishment of the Council for the Homeless (Council) as a collaborative effort to address issues of homelessness. Each jurisdiction appoints one board member. The remaining 12 members of the Council are selected by the Council's bylaws. Clark County and Vancouver Housing Authority provides annual fiscal support for operations where the City does not; funding, if provided by the City, comes in the form of Council applying for competitive grants as a subrecipient of the City. For the year ending December 31, 2017, the City made subrecipient grant payments to the Council totaling \$50,000. The relationship between the City and the Council does not create an ongoing financial interest or financial responsibility.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### D. RISK MANAGEMENT

During 1977, the City became a qualified self-insurer for workers' compensation as an alternative to the state program. In 1978, all local governments within Washington State were brought under the state unemployment tax coverage, which also allowed qualified cities to become self-insured. The City qualified and became self-insured for unemployment in 1978. The City established a Self-Insurance Internal Service fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, property, workers' compensation, and unemployment. Commercial insurance is purchased to handle risk of loss. In the past three years, no settlement has exceeded the City's insurance limits. Beginning in 2015, the City also became self-insured for certain employees' healthcare coverage. The City provides insurance coverage deemed as adequate and appropriate. In the case of City self-insurance activity, non-incremental claims adjustment expenses are not included as a part of the accrued claims liabilities in the financial statements.

#### General liability and Property

The self-insurance cost for liability claims and claims administration through December 31, 2017, is \$548,784 with 110 new claims filed for 2017. The fund pays the majority of claims involving general liability, but has other liability coverage through specific policies. Currently, specific policies include airport liability at an annual cost of \$4,851. Coverage totals \$5,000,000 for liability and \$5,000,000 for hangar keepers legal. In addition, the City purchases excess liability insurance for all City operations including auto, for a limit of \$10,000,000 plus \$10,000,000 excess at an annual cost of \$344,985. The excess policy provides \$1,000,000 for self-insured retention. The City also purchases liability on specific vehicles up to \$1,000,000 at an annual cost of \$8,242 and inland marine coverage for the equipment fleet at an annual cost of \$45,100. The deductible for fleet physical damage is 5% subject to \$10,000 minimum.

Property claim costs in 2017 were \$172,926, with 41 new first party property and vehicle claims reported in 2017. The City carries fire damage insurance (buildings and business personal property), earth movement, equipment breakdown, valuable papers, computer virus, accounts receivable and flood insurance coverage at an annual cost of \$373,083 for all City buildings and contents. Policy coverage for property damage is up to \$500 million with adjustable deductibles based on specific event types. This represents replacement cost for City buildings and contents.

#### Worker's compensation

The cost for Workers' Compensation claims and claims administration was \$1,191,920 in 2017, with 109 new claims processed. Reportable claims costs for 2017 are \$577,276 with 48 open claims. The City is self-insured through the fund for workers' compensation; however, an excess coverage policy is carried at an annual premium cost of \$91,795. The policy has a \$1,000,000 deductible.

#### Contributions and reserves

City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. The claims liability reported in the fund totaled \$6,836,000 at December 31, 2017.

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The following was prepared based on an actuarial analysis by Bickmore dated February 23, 2018. These are actuarial estimated amounts reflecting expected losses; actual losses may vary slightly. Changes in the fund's claims liability amount in 2017, 2016, and 2015 are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims	Change in Estimates for Claims of Prior Periods	Claim Payments	Balance at Fiscal Year End
2017	\$ 5,464,000	\$ 1,968,630	\$ 1,317,000	\$ 1,913,630	\$ 6,836,000
2016	5,169,177	3,044,854	220,000	2,970,031	5,464,000
2015	4,323,000	2,206,934	946,000	2,306,757	5,169,177

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### Employee healthcare

Beginning January 2015, the City established an internal service fund for the purpose of self-insuring employee medical costs. The City pays claims and expenses for employees choosing this plan and contracts with a third party administrator to process claims. The plan carries reinsurance coverage with a \$150,000 individual stop loss, and an aggregate stop loss of 125% of claims. Since the fund is recently established, no settlements have exceeded coverage to date. Any outstanding claims liabilities existing at the end of the fiscal year were deemed immaterial and were not booked in the financial statements.

The City is obligated to establish a 16 week contingency reserve of \$2,197,202 for this internal service fund. As of December 31, 2017, fund balance for the self-insured health insurance fund is \$5,237,452 after three years of operation. The City is confident the reserve is adequate.

### **E. PROPERTY TAXES**

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

#### Property Tax Calendar

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

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

- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value, except for port districts and public utility districts. Within the one percent limitation, RCW 84.52.043(2) imposes an aggregate limitation on regular levies by all taxing districts, other than the State, of \$.50/\$1,000 of assessed value, except for levies for any port or public utility district; excess levies authorized in Article VII, Section 2 of the State Constitution; and certain levies for acquiring conservation futures, for emergency medical services or care, and to finance affordable housing.
- The regular property tax increase limitation (chapter 84.55 RCW), as amended most recently by Initiative No. 747 (which was passed by voters in 2001), limits the total dollar amount of regular property taxes levied by an individual local taxing district such as the City to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, annexations, improvements and State-assessed property at the previous year's rate. The limit factor is the lesser of 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property) or 100 percent plus inflation, unless a greater amount is approved by a simple majority of the voters. With a supermajority vote of the Council, the limit factor is a flat 101 percent. On November 8, 2007, the Washington Supreme Court ruled Initiative 747 unconstitutional. On November 29, 2007, the Legislature approved a bill reinstating the 101 percent property tax limit factor approved by the voters under Initiative 747.
- The City may voluntarily levy taxes below the legal limit.

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

For 2017, the City's regular tax levy was \$2.468 per \$1,000 on a total taxable 2017 assessed valuation of \$18,642,704,534 for a total regular levy of \$46,005,012. In addition, in 2017 the City annexed Van Mall North, which added \$839,812 to the property tax levy. Collections for the Van Mall North annexation in 2017 were deposited to the Fire and Street funds.

In November 2016, voters approved an Affordable Housing Levy which authorized \$6,000,000 in property taxes to be levied and collected annually beginning in 2017 for a total of seven years. This tax levy was \$.32184 on the 2017 assessed value. This revenue was deposited in a separate special revenue fund, specifically for programs associated with this levy.

## **CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS**

Outstanding property taxes at December 31, 2017 amount to \$886,939. The City does not establish an allowance for doubtful accounts since state law has authorized sales of taxed property to satisfy delinquent property taxes.

Property taxes are deposited into the General Fund. Transfers are then made into the general obligation debt service funds as required by the bond ordinances. Any shortages due to delinquent property taxes are absorbed by the General Fund.

### ***F. TAX ABATEMENT***

#### Multifamily Tax Exemption Program

The City enters into property tax abatement agreements with local businesses under the Multifamily Tax Exemption Program, which is authorized under Washington State RCW 84.14 and codified in Chapter 3.22 of the Vancouver Municipal code. Under the RCW, the City may grant property tax abatements of up to an approved period of eight, ten or twelve years for the approved value of newly constructed or rehabbed residential units. The purpose of this tax exempt program is to increase residential opportunities, including affordable housing, in designated urban centers.

Tax abatement eligibility is as follows:

- An eight year exemption is available for market-rate projects with an approved development agreement.
- Three tax exemption options are available for housing projects with an affordability component:
  - 8-year exemption for projects with 20% of units affordable to households earning up to 100% of area median income (AMI).
  - 10-year exemption for projects with 20% of units affordable to households earning up to 80% AMI.
  - 12-year exemption for projects with 20% of units affordable to households earning up to 60% AMI.

In addition to the above requirements, households in income-restricted units must pay no more than 30% of their income for rent and utilities.

For projects approved under this program, the owner has three years from the agreement being approved by council to obtain an occupancy permit. A Certificate of Tax Exemption is obtained by the property owner, which details the total exemption. The duration of the tax exemption is measured beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption. The new residential improvements are not added to the tax rolls until the exemption expires. However, land and other non-residential improvements are subject to property taxes.

All approved tax exemption projects are reviewed annually to ensure compliance with the program. If it is determined that the property owner is not complying with the terms of the agreement, the tax exemption will be canceled. This can occur in conjunction with the annual review or at any other time when the non-compliance has been determined. Additionally, owners of tax exemption projects are required to submit annual information to the City.

As of December 31, 2017, eighteen agreements under this program have been approved by Council. The majority of these projects are in the pre-construction or construction phase. During 2017, the City issued three exemption certificates, for which abatement will begin January 1, 2018. For the fiscal year ended December 31, 2017, three projects were in the abatement period for which the City abated property taxes totaling approximately \$63,000.

#### High Unemployment County Sales & Use Tax Deferral for Manufacturing Facilities

The state administers this tax deferral program under Washington State RCW 82.60. The purpose of the program is to promote economic stimulation, create new employment opportunities in distressed areas, and reduce poverty in certain distressed counties in the state. During the year ended December 31, 2017 the state issued tax deferrals which reduced the City's revenue totaling approximately \$103,000 under this program.

**CITY OF VANCOUVER  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**G. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

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 2017:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension Liabilities	\$ 31,929,841
Pension Assets	25,516,893
Deferred outflows of resources	8,288,301
Deferred inflows of resources	10,929,871
Pension expense / expenditures	5,674,537

State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The 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** 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.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### 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 2017 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

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

**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 Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.



## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 2/3 Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

\* For employees participating in JBM, the contribution rate was 15.30% for January to June 2017, and 18.45% for July to December 2017.

The City's actual PERS plan contributions were \$2,266,259 to PERS Plan 1 and \$3,145,115 to PERS Plan 2/3 for the year ended December 31, 2017.

### Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

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

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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

### Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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



## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.59%</b>	<b>8.41%</b>
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
Ports and Universities	8.75%	8.75%
<b>Administrative Fee</b>	<b>0.18%</b>	
<b>Total</b>	<b>8.93%</b>	<b>8.75%</b>

The City's actual contributions to the plan were \$2,303,750 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,392,511.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the 2015 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### 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. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

### 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, 2017, 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	1.7%
Tangible Assets	5%	4.9%
Real Estate	15%	5.8%
Global Equity	37%	6.3%
Private Equity	23%	9.3%
	<b>100%</b>	

### Sensitivity of Net Pension Liability

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's 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.

	<u>1% Decrease 6.5%</u>	<u>Current Rate 7.5%</u>	<u>1% Increase 8.5%</u>
<b>PERS 1</b>	\$ 20,065,197	\$ 16,471,305	\$ 13,358,224
<b>PERS 2/3</b>	41,379,557	15,359,298	(5,960,444)
<b>LEOFF 1</b>	(2,692,874)	(3,630,358)	(4,435,444)
<b>LEOFF 2</b>	4,080,621	(18,856,977)	(37,545,573)

### 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.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

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

At June 30, 2017, the City reported a total pension liability of \$31,830,603 for its proportionate share of the net pension liabilities and \$22,487,335 for its proportionate share of net pension assets as follows:

<b>Plan</b>	
PERS 1	\$ 16,471,305
PERS 2/3	15,359,298
Total liabilities	\$ 31,830,603
LEOFF 1	\$ (3,630,358)
LEOFF 2	(18,856,977)
Total (assets)	\$ (22,487,335)

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

	<b>LEOFF 1 Asset</b>	<b>LEOFF 2 Asset</b>
LEOFF - Employer's proportionate share	\$ (3,630,358)	\$ (18,856,977)
LEOFF - State's proportionate share of the net pension associated with the employer	(24,555,655)	(12,232,168)
TOTAL	\$ (28,186,013)	\$ (31,089,145)

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportionate</b>
PERS 1	0.33673%	0.34712%	0.01039%
PERS 2/3	0.42427%	0.44206%	0.01779%
LEOFF 1	0.24378%	0.23928%	-0.00450%
LEOFF 2	1.33983%	1.35889%	0.01906%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

<b>Pension Expense</b>	
PERS 1	\$ 1,686,131
PERS 2/3	2,385,136
LEOFF 1	(526,068)
LEOFF 2	557,691
TOTAL	\$ 4,102,890

**CITY OF VANCOUVER**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>PERS 1</b>		
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (614,663)
Contributions subsequent to the measurement date	1,175,609	-
<b>TOTAL</b>	<b>\$ 1,175,609</b>	<b>\$ (614,663)</b>
<b>PERS 2/3</b>		
Differences between expected and actual experience	\$ 1,556,259	\$ (505,141)
Net difference between projected and actual investment earnings on pension plan investments	-	(4,094,420)
Changes of assumptions	163,145	-
Changes in proportion and differences between contributions and proportionate share of contributions	980,996	-
Contributions subsequent to the measurement date	1,734,431	-
<b>TOTAL</b>	<b>\$ 4,434,831</b>	<b>\$ (4,599,561)</b>
<b>LEOFF 1</b>		
Net Difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (337,345)
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ (337,345)</b>
<b>LEOFF 2</b>		
Differences between expected and actual experience	\$ 828,800	\$ (715,088)
Net Difference between projected and actual investment earnings on pension plan investments	-	(4,233,524)
Changes of assumptions	22,707	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(429,690)
Contributions subsequent to the measurement date	1,216,364	-
<b>TOTAL</b>	<b>\$ 2,067,871</b>	<b>\$ (5,378,302)</b>
<b>TOTAL ALL PLANS</b>		
Differences between expected and actual experience	\$ 2,385,059	\$ (1,220,229)
Net Difference between projected and actual investment earnings on pension plan investments	-	(9,279,952)
Changes of assumptions	185,852	-
Changes in proportion and differences between contributions and proportionate share of contributions	980,996	(429,690)
Contributions subsequent to the measurement date	4,126,404	-
<b>TOTAL</b>	<b>\$ 7,678,311</b>	<b>\$ (10,929,871)</b>

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

Deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2018	\$ (415,473)	\$ (1,356,305)	\$ (211,712)	\$ (2,045,100)
2019	131,171	673,081	57,099	340,240
2020	(30,457)	(230,379)	(22,801)	(390,788)
2021	(299,905)	(1,542,859)	(159,930)	(1,926,118)
2022	-	242,305	-	(90,184)
Thereafter	-	314,996	-	(414,844)

### POLICE OFFICERS AND FIREFIGHTERS' PENSION FUNDS

#### **Plan Description**

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

The Policemen's Pension Board is composed of seven members as follows: The mayor or his designate; the mayor pro-tem; the city clerk who acts as secretary; the city treasurer; and three police members who may be either active or retired city employees.

The Firemen's Pension Board is composed of five members as follows: The mayor or his designate; the city clerk who acts as secretary; the city treasurer; and two fire members who may be either active or retired city employees.

The financial activity of the Police and Fire Pension Trust Funds are presented in the Combining Statement of Net Position – Fiduciary Funds, and the Combining Statement of Changes in Net Position – Fiduciary Funds. No separate stand-alone financial reports are issued for the plans.

Plan membership. At December 31, 2017, pension plan membership consisted of only inactive plan members or beneficiaries currently receiving benefits. Of the 65 members, 36 are fire members and 29 are police members. As of December 31, 2017 there were eight (three fire members and five police members) inactive employees, or their beneficiaries, who were not yet a benefit but may be entitled to receive one in the future. The police and fire plans entitle the employees to the greater of the state pension plan or city pension plan benefit. If the city plan benefit exceeds the state benefit, the city must pay the benefit difference. The city benefit amount changes based on current police and fire salaries and other factors.

#### Benefit Provisions

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

- Pension and medical expenses for police officers and firefighters retired prior to March 1, 1970, continue to be paid in their entirety by the City under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the reasonable cost of necessary medical expenses of the retiree for life.
- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the City is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977, are covered entirely by the LEOFF system with no City obligation for either retirement allowance or medical expenses.
- The benefits are directly correlated to the salaries of active employees. Cost of Living Adjustments (COLAs) provided at the state level do not impact the total pension benefits provided to the members. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the City's Plan. There were no changes in benefit provisions in the current year.

## CITY OF VANCOUVER

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### Contributions

Firemen Plan contributions are required by RCW 41.18, while Policemen Plan contributions are required by RCW 41.20. These Plans are closely tied to the LEOFF plan contributions. Any increases to the LEOFF plans decreases the contributions required by the City's Police and Firemen Pension Plan. Any decreases to the LEOFF plan increase the contributions required by the Plans. Retirement benefit provisions are established in state statute and may only be amended by the State Legislature. Amendments to each of the Plans are authorized by the separate Police and Fire Pension Boards.

Funding for the Police Pension Fund comes from annual transfers from the General Fund that are budgeted and approved by the City Council. Sources of funding for the Firefighters Pension Fund include donations, distributions from the state from fire insurance premium collections, and a property tax levy of up to \$.225 per \$1,000 of assessed valuation.

Contributions are determined on a pay-as-you-go basis. Milliman Consultants and Actuaries completed actuarial studies of the two funds as of December 31, 2017; however, no actuarially determined contributions are provided. The General Fund is responsible for the costs of administering the plans, however the valuations assume this is coming from plan assets. If assets are depleted, the General Fund is responsible for the costs. There have been no required employee contributions to the plans since March 1, 1970 because the plan is closed to new entrants. For the year ended December 31, 2017, contributions made by the general fund to the Police and Fire Pension Funds were \$1,100,004 and \$1,800,000, respectively. These contributions came from the General Fund.

The state contributes 25% of taxes on fire insurance premiums to the Fire Pension Fund and is considered a non-employer contributing entity. The amount contributed in 2017 to the Fire Pension Fund was \$187,387.

As of December 31, 2017, the Police Pension Fund and the Firefighters Pension Fund reported net position held in trust for pension and OPEB benefits of \$2,333,513 and \$9,753,670, respectively.

#### **Investments**

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council. It is the policy of the City Council to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. City Council reviews the investment policy as part of the financial policies adopted as part of the biennial budget process.

As of December 31, 2017, the Firefighters Pension fund had an investment portfolio with fair value of \$507,030, which was invested in Corporate Bonds, and in Municipal Bonds on behalf of the Firemen's Pension Fund. In addition to these investments, the Firefighters Pension fund had cash and cash equivalents invested in the City's internal investment pool totaling \$9,224,112. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), which operates within the parameters outlined in GASB 79, and qualifies to report investments at amortized cost. The State Investment Pool's investment objective is to effectively maximize the yield while maintaining liquidity and a stable share price of \$1. The State Pool portfolio's average maturity was 37 days on December 31, 2017. The State Investment Pool is an unrated fund. The City's internal investment pool also invests in the Clark County Local Government Investment Pool, which is unrated, and in US Agencies and Municipal Bonds. All investments are valued at fair value. The average maturity of the Clark County Local Government Investment Pool is 9.9 months. The fair value of the investment portfolio is obtained using the market approach. Pricing is obtained through the City's third-party safekeeping custodian, US Bank Corporate Trust Services, who obtains pricing on Federal Agencies and Corporate Bonds through IDC Institutional Bond Quotes, and uses Standard & Poor's for pricing Municipal Bonds. Investments are reported at fair value or amortized costs as described above.

The Police Pension fund reported no investments at December 31, 2017, but did have \$2,314,178 invested in the City's internal investment pool.

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

Rate of return. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was as follows:

Year ending December 31, 2017	Net Money- Weighted Rate of Return
Fire Pension Trust Fund	0.73%
Police Pension Trust Fund	0.03%

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### Net Pension Liability

The components of the net pension liability of the City at December 31, 2017, were as follows:

	Fire	Police
Total pension liability	\$ 6,724,111	\$ 2,432,751
Plan fiduciary net position	9,753,669	2,333,513
Net pension liability (asset)	<u>\$ (3,029,558)</u>	<u>\$ 99,238</u>
Fiduciary net position as a % of total pension liability	145.06%	95.92%
Covered payroll	0	0
Net pension liability as a % of covered payroll	N/A	N/A

Changes in net pension liability for each plan is as follows:

FIRE PENSION TRUST FUND			
		Increase (Decrease)	
Changes in Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances as of December 31, 2016	\$ 6,916,589	\$ 9,032,693	\$ (2,116,104)
Changes for the year:			
Interest on total pension liability	248,486	-	248,486
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions, changes or inputs	145,026	-	145,026
Benefit payments	(585,990)	(585,990)	-
Medical payments from fund	-	(688,888)	688,888
Employer contributions	-	1,800,000	(1,800,000)
Contributions from state fire insurance premium tax	-	187,387	(187,387)
Net investment income	-	84,375	(84,375)
Administrative expenses	-	(75,908)	75,908
Balance as of December 31, 2017	<u>\$ 6,724,111</u>	<u>\$ 9,753,669</u>	<u>\$ (3,029,558)</u>

POLICE PENSION TRUST FUND			
		Increase (Decrease)	
Changes in Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2016	\$ 2,547,355	\$ 2,175,786	\$ 371,569
Changes for the year:			
Service Cost	-	-	-
Interest on total pension liability	90,878	-	90,878
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions, changes or inputs	44,698	-	44,698
Benefit payments	(250,180)	(250,180)	-
Medical payments from fund	-	(651,784)	651,784
Employer contributions	-	1,100,004	(1,100,004)
Police auction income	-	8,501	(8,501)
Net investment income	-	66	(66)
Administrative expenses	-	(48,880)	48,880
Balance as of December 31, 2017	<u>\$ 2,432,751</u>	<u>\$ 2,333,513</u>	<u>\$ 99,238</u>

Actuarial assumptions. The total pension liability for each plan was determined by an actuarial valuation as of December 31, 2017, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. There were no significant changes during this period. The following actuarial assumptions were applied to all periods included in the measurement:

Discount rate	3.50%
Long-term expected rate of return, net of investment expense	3.50%
Municipal bond rate	3.50%
Inflation	2.25%
Salary increases including inflation	3.25%
Actuarial cost method	Entry Age Normal

## CITY OF VANCOUVER

### NOTES TO THE BASIC FINANCIAL STATEMENTS

Mortality rates were based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members). The best-estimate range for the long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2017.

The Police and Fire Pension plans are separately invested, but assume the same expected rate of real return. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Index	Long-term Expected Rate of Real Return
Cash	BAML 90 day T-bills	0.18%
Short-term bonds	Barclays 1-3 Year Gov/Cred	1.34%
Long-term bonds	Barclays Long Gov/Cred	2.78%
Assumed inflation - Mean		2.25%
<b>Long-term expected rate of return</b>		<b>3.50%</b>

**Discount rate.** GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the Plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values.

The assumption of 3.5% as of December 31, 2017 is an appropriate long-term expected rate of return on investments such as those in the City's trust. The Bond Buyer General Obligation municipal bond index for bonds that mature in 20 years is 3.44% as of December 31, 2017. Rounding this to the nearest 1/4% results in a discount rate of 3.5%. Using 3.5% for both the long-term expected rate of return and the bond index will mean that 3.5% could be used as the single discount rate. This will need to be re-evaluated as of later valuation dates. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month.

The discount rate as of December 31, 2016 was 3.75%. The discount rate at December 31, 2017 represents a 0.25% decrease in rate.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the net pension liability of the County, calculated using the discount rate of 3.5%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Net pension liability (asset)		
	1% Decrease 2.50%	Current rate 3.50%	1% Increase 4.50%
Fire	(2,392,206)	(3,029,558)	(3,579,337)
Police	293,782	99,238	(71,059)

#### Pension Expense

Pension expense recognized related to the City's own pension trust funds for the year ended December 31, 2017, was as follows:

Plan	Pension expense
Fire Pension Trust Fund	775,570
Police Pension Trust Fund	796,077
Total	<u>\$ 1,571,647</u>



## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### Deferred Outflows of Resources

The City does not report deferred outflows or inflows on fiduciary fund statements. The following information is provided in accordance with GASB 67/68 criteria. At December 31, 2017, the deferred outflows of resources related to pension trust funds were from the following sources:

Source of Deferred Outflows of Resources	Fire Pension Trust Fund	Police Pension Trust Fund
Net difference between projected and actual investment earnings on pension plan investments	\$ 473,198	\$ 136,791

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Fire Pension Trust Fund	Police Pension Trust Fund
2018	\$ 155,766	\$ 44,334
2019	155,768	44,336
2020	105,305	31,363
2021	56,359	16,758
2022	-	-
Thereafter	-	-

### H. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

#### Plan Description:

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

#### Membership:

Membership in this program includes Plan 1 participants of LEOFF who joined the system by September 30, 1977. Currently, 102 retirees (42 Police and 60 Fire) meet those eligibility requirements. This is considered a closed group with no new members. There were no active employees, and no retired employees not yet receiving a benefit, as of December 31, 2017.

#### Funding Policy:

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

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

Employer contributions are financed on a pay-as-you-go basis. Expenditures for postretirement health in 2017 were \$1,340,672.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### Annual OPEB costs and Net OPEB Obligation:

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

	Police	Fire
Annual required contribution	\$ 1,333,738	\$ 1,991,527
Interest on net OPEB obligation	143,611	227,703
Adjustment to annual required contribution	(265,627)	(421,165)
Annual OPEB cost	1,211,722	1,798,065
Contributions made	(651,784)	(688,888)
Increase in net OPEB obligation	559,938	1,109,177
Net OPEB obligation - beginning of year	3,829,630	6,072,072
Net OPEB obligation - end of year	\$ 4,389,568	\$ 7,181,249

The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years for each were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB obligation
Police	December 31, 2017	\$ 1,211,722	54%	\$ 4,389,568
	December 31, 2016	1,028,765	60%	3,829,630
	December 31, 2015	1,052,290	45%	3,413,156
Fire	December 31, 2017	\$ 1,798,065	38%	\$ 7,181,249
	December 31, 2016	1,655,208	49%	6,072,072
	December 31, 2015	1,690,363	49%	5,231,955

### Funding Status and Funding Progress:

The actuarial updates on the funding status are as follows:

#### Police:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
January 1, 2017	\$ -	\$ 18,534	\$ 18,534	0%	N/A	N/A
January 1, 2015	-	17,195	17,195	0%	N/A	N/A
January 1, 2013	-	17,048	17,048	0%	N/A	N/A

#### Fire:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of Covered Payroll
January 1, 2017	\$ -	\$ 27,675	\$ 27,675	0%	N/A	N/A
January 1, 2015	-	27,544	27,544	0%	N/A	N/A
January 1, 2013	-	27,794	27,794	0%	N/A	N/A

## CITY OF VANCOUVER NOTES TO THE BASIC FINANCIAL STATEMENTS

### Actuarial Methods and Assumptions:

The actuarial assumptions used in the January 1, 2017, OPEB actuarial valuations include techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. In the January 1, 2017 actuarial valuation, the entry age normal cost method was used. The assumptions included a 3.75% investment rate of return, a medical inflation rate that ranges between 4.8-9.0% over the next 15 years, and a long-term care inflation rate of 4.5% for both plans. The plans unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2017 is 19 years.

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, service retirement, disability, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents the results of OPEB valuations as of December 31, 2017, and looking forward, the schedule of funding progress will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and the plan members to that point.

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

### **I. POLLUTION REMEDIATION OBLIGATION**

Dry cleaning solvent had been dumped down a catch basin on a regular basis which subsequently caused perchloroethylene (PCE) to leak into the aquifer at Water Station No.4. The City had used aeration towers to treat this ground water. In previous years, the environmental liability was estimated to cost \$420,000 over the next 20 years. This estimate was based on prior year actual costs, and was subject to changes in price, technology or changes in applicable laws and regulations.

During June 2017, the Water Station No. 4 Superfund Site was closed by the United State Environmental Protection Agency because the required remedial action objectives and associated clean up goals at the site were met. As a result, the estimated environmental liability was removed from the financial statements.

### **J. SPECIAL AND EXTRAORDINARY ITEMS**

#### Special Item: Annexation

In 2016, the Vancouver City Council identified Van Mall North as an area ready for annexation. It is located in Vancouver's Urban Growth Area (UGA), and was slated for annexation by the City and Clark County in the Annexation Blueprint Plan (2007). Annexation of Van Mall North was underway in 2008, when all annexation activities were halted due to the economic recession. It resumed and was completed August 1, 2017. The Van Mall North area is already served by City of Vancouver water, sewer and emergency fire services. The annexation is reported as a special item on the Government Wide Statement of Activities. The net book value of the total assets acquired from Clark County in the annexation, totaled \$38.8 million, of which \$34.9 million was reported in the governmental activities and \$3.9 million in the business-type activities. The city also has agreed to make annual payments to the County totaling \$344,445 through 2022. This is to assist the county in covering debt service requirements related to an asset annexed, in part, by the city. Additional details on this annexation can be found on the City's website through this link <https://www.cityofvancouver.us/ced/page/van-mall-north-annexation>.

#### Special item: Forgiveness of Debt (Component Unit)

As part of the refinancing of the DRA debt in June 2013, a new agreement was signed with the Manager of the Vancouver Conference Center (Hilton Hotels) that provides for forgiveness of the above fee amounts over a 10-year period, on a straight-line basis. The forgiveness of these fees is recorded as a Special Item, Gain on Extinguishment of Debt on the Statement of Activities. During December 31, 2017, \$107,813 had been forgiven. The outstanding obligation recorded on the Statement of Net Position as of December 31, 2017, is \$592,971. Additional details on this ongoing arrangement can be found above in Note IV. B. Related Party Commitments. Section 3. Commitment to Hilton Hotel, with respect to the Subordinate and Super-subordinate Management Fees.

# CITY OF VANCOUVER

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### Extraordinary item: Bankruptcy settlement

On January 2, 2009, Lehman Brothers Special Finance Inc. failed to tender for sale to the Downtown Redevelopment Authority the Qualified Securities pursuant to the terms of the Forward Purchase Agreement (FPA), and did not correct the issue in the Cure Period. Based on this, the Authority reinvested the investment balance held with the Trustee for 6-months in qualified investments, which matured on July 1, 2009, and was reinvested thereafter with maturities to coincide with the semi-annual interest and principal payments. The rate of return on the reinvestment was substantially below the 5.05%. The Authority pursued a claim with the Bankruptcy Court against Lehman Brothers Inc., and Lehman Brothers Special Finance Inc. for the difference between the fixed rate of 5.05% and the rate that a new Forward Purchase Agreement will generate. During 2017, the Authority received a distribution in the amount of \$31,146 as a result of the bankruptcy claim. If the Lehman bankruptcy estate receives additional funds, more distributions are possible.

## **K. PRIOR PERIOD ADJUSTMENTS/ RESTATEMENTS**

### Capital Assets

It was determined by the City that although the Transportation Department of the Street Fund constructed storm related assets these assets, after constructed, are the responsibility of the Storm water Department of the Water / Sewer Fund to maintain and if needed replace these assets. Therefore, the City transferred all material storm asset values to the appropriate fund looking back five years. The value of the assets transferred from streets to storm is \$2,281,334.

#### Governmental Activities:

CIP should have been capitalized as Infrastructure in prior year (CIP overstated)	\$ (1,074,250)
CIP should have been capitalized as Infrastructure in prior year (net assets)	1,074,250
Infrastructure Street Assets donated to Storm Assets (net assets overstated)	(2,281,334)
Less changes in depreciation:	
Infrastructure (increase in Accumulated Depreciation)	22,380
Infrastructure (decrease in Accumulated Depreciation)	(123,678)
Total Prior Period Adjustments - Governmental Activities	<u><u>\$ (2,180,036)</u></u>

#### Business Type Activities:

CIP not recognized in prior year financials (CIP understated)	\$ 301,927
CIP should have been capitalized as Infrastructure in prior year (CIP overstated)	(2,981,599)
CIP should have been capitalized as Infrastructure in prior year (net assets)	2,981,599
Infrastructure Storm Assets donated from Streets (net assets understated)	2,281,334
Infrastructure assets should have been retired in prior year (net assets overstated)	(1,553,165)
Less changes in depreciation:	
Buildings and Systems - Parking Garages useful life adjustment (decrease in Accumulated Depreciation)	(5,902,116)
Infrastructure (increase in Accumulated Depreciation)	232,349
Infrastructure (decrease in Accumulated Depreciation)	(660,095)
Total Prior Period Adjustments - Business Type Activities	<u><u>\$ 7,359,957</u></u>

### Investment in joint venture

It was determined that the City had incorrectly recorded a financial interest in Clark Regional Emergency Services Agency (CRESA) in prior years. The City has a financial responsibility for the joint venture but not a financial interest. Therefore a prior period adjustment was done to remove the asset from the statement of net position. The effect of the entry was as follows:

Reduction of investment in joint venture, Governmental Activities	<u><u>\$ (10,767,734)</u></u>
Reduction of Net Position - Beginning, Governmental Activities	<u><u>\$ (10,767,734)</u></u>

**CITY OF VANCOUVER**

Required Supplementary Information  
 Police and Fire OPEB Pension Funds  
 December 31, 2017

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**Schedule of Funding Progress**

*Six year trend*  
 (In thousands)

Retirement System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Police Relief and Pension Fund	1/1/2017	\$ -	\$ 18,534	\$ 18,534	0%	N/A	N/A
	1/1/2015		17,195	17,195	0%	N/A	N/A
	1/1/2013	-	17,048	17,048	0%	N/A	N/A
	1/1/2011	-	17,272	17,272	0%	N/A	N/A
	1/1/2009	-	14,518	14,518	0%	N/A	N/A
	1/1/2007	-	9,734	9,734	0%	N/A	N/A
Fireman's Pension Fund	1/1/2017	\$ -	\$ 27,675	\$ 27,675	0%	N/A	N/A
	1/1/2015	-	27,544	27,544	0%	N/A	N/A
	1/1/2013	-	27,794	27,794	0%	N/A	N/A
	1/1/2011	-	26,545	26,545	0%	N/A	N/A
	1/1/2009	-	21,587	21,587	0%	N/A	N/A
	1/1/2007	-	16,244	16,244	0%	N/A	N/A

\* The actuarial updates on this information are done on an biennial basis.

**CITY OF VANCOUVER**

Required Supplementary Information

State Sponsored PERS Plans

December 31, 2017

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***Schedule of Proportionate Share of the Net Pension Liability***

Last Four Fiscal Years

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<b>PERS Plan 1</b>					
2017	0.347124%	\$ 16,471,305	\$ 43,908,733	37.51%	61.24%
2016	0.336733%	18,084,148	40,455,469	44.70%	57.03%
2015	0.325010%	17,001,046	36,931,559	46.03%	59.10%
2014	0.321349%	16,188,107	35,499,566	45.60%	61.19%
<b>PERS Plan 2/3</b>					
2017	0.442055%	\$ 15,359,298	\$ 43,718,782	35.13%	90.97%
2016	0.424266%	21,361,458	40,195,751	53.14%	85.82%
2015	0.413288%	14,767,016	36,685,226	40.25%	89.20%
2014	0.406638%	8,219,622	35,219,137	23.34%	93.29%

**CITY OF VANCOUVER**

Required Supplementary Information

State Sponsored LEOFF Plans

December 31, 2017

***Schedule of Proportionate Share of the Net Pension Liability***

Last Four Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	State's proportionate share of the net pension liability (asset) associated with the employer	TOTAL	Covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
<b>LEOFF 1</b>							
2017	0.239277%	\$ (3,630,358)	\$ (24,555,655)	\$ (28,186,013)	NA	NA	135.96%
2016	0.243781%	(2,511,642)	(16,988,681)	(19,500,323)	NA	NA	123.74%
2015	0.246609%	(2,972,183)	(20,103,772)	(23,075,955)	NA	NA	127.36%
2014	0.248167%	(3,009,747)	(20,357,854)	(23,367,601)	NA	NA	126.91%
<b>LEOFF 2</b>							
2017	1.358889%	\$ (18,856,977)	\$ (12,232,168)	\$ (31,089,145)	\$ 42,714,489	-44.15%	113.36%
2016	1.339828%	(7,792,842)	(5,080,366)	(12,873,208)	40,833,703	-19.08%	106.04%
2015	1.297652%	(13,337,267)	(8,818,610)	(22,155,877)	37,663,087	-35.41%	111.67%
2014	1.281662%	(17,008,206)	(11,112,842)	(28,121,048)	35,655,019	-47.70%	116.75%

**CITY OF VANCOUVER**

Required Supplementary Information  
State Sponsored PERS Plans  
December 31, 2017

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**Schedule of Employer Contributions**

Last Four Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
<b>PERS Plan 1</b>					
2017	\$ 2,266,259	\$ (2,266,259)	\$ -	\$ 45,983,171	4.93%
2016	2,002,066	(2,002,066)	-	41,693,085	4.80%
2015	1,745,867	(1,745,867)	-	39,026,260	4.47%
2014	1,548,817	(1,548,817)	-	37,320,879	4.15%
<b>PERS Plan 2/3</b>					
2017	\$ 3,145,115	\$ (3,145,115)	\$ -	\$ 45,800,870	6.87%
2016	2,583,884	(2,583,884)	-	41,477,314	6.23%
2015	2,202,444	(2,202,444)	-	38,756,185	5.68%
2014	1,888,244	(1,888,244)	-	37,065,498	5.09%



**CITY OF VANCOUVER**

Required Supplementary Information

State Sponsored LEOFF Plans

December 31, 2017

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***Schedule of Employer Contributions***

Last Four Fiscal Years

<u>Year Ended December 31,</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employer payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<b>LEOFF 1</b>					
2017	N/A	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
<b>LEOFF 2</b>					
2017	\$ 2,303,750	\$ (2,303,750)	\$ -	\$ 44,722,208	5.15%
2016	2,134,670	(2,134,670)	-	42,270,438	5.05%
2015	2,042,874	(2,042,874)	-	39,060,712	5.23%
2014	2,007,877	(2,007,877)	-	38,390,731	5.23%

## **CITY OF VANCOUVER**

Notes to Required Supplemental Information - Pension

All Multi employer State Sponsored Plans

December 31, 2017

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### **Note 1: Information Provided**

The City implemented GASB 68 for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

### **Note 2: Significant Factors**

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

### **Note 3: Change in contribution rate**

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.70% for pay periods beginning July 2017.

### **Note 4: Employer Contributions**

For LEOFF 1, there is a net pension asset for the City; however, there are no active employees participating in the plan, and no required contributions because the plan is fully funded. Therefore, covered payroll and contributions are displayed as N/A.

### **Note 5: Covered Payroll**

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll now includes all payroll on which a contribution is based.

**CITY OF VANCOUVER**

Required Supplementary Information - Single Employer

Fire Pension Trust Fund

December 31, 2017

**Schedule of Changes in Net Pension Liability and Related Ratios**

Last Four Fiscal Years

(In thousands)

	2017	Restated 2016	2015	2014
<b>Total pension liability</b>				
Interest	\$ 248	\$ 255	\$ 265	\$ 272
Effect of economic/demographic (gains) or losses	-	(185)	-	-
Effect of assumptions, changes or inputs	145	(156)	-	-
Benefit payments, including refunds of contributions	(586)	(562)	(526)	(477)
Net change in total pension liability	(193)	(648)	(261)	(205)
Total pension liability - beginning	6,917	7,565	7,826	8,031
Total pension liability - ending (a)	6,724	6,917	7,565	7,826
<b>Plan fiduciary net position</b>				
Contributions - employer	1,800	1,756	1,756	1,756
Contributions - state fire insurance premium tax	187	183	172	185
Net investment income	84	61	35	35
Prior period adjustment	(15)	-	-	17
Benefit payments, including refunds of contributions	(586)	(562)	(526)	(477)
Medical payments from fund	(689)	(815)	(836)	(924)
Administrative expense	(76)	(69)	(56)	(29)
Net change in plan fiduciary net position	705	554	545	563
Plan fiduciary net position - beginning	9,048	8,494	7,949	7,386
Plan fiduciary net position - ending (b)	9,753	9,048	8,494	7,949
Net pension liability ending (a) - (b)	\$ (3,029)	\$ (2,131)	\$ (929)	\$ (123)
Plan fiduciary net position as a % of total pension liability (b)/(a)	145.05%	130.81%	112.28%	101.57%
Covered-employee payroll	-	-	-	-
Net pension liability as a % of covered employee payroll	N/A	N/A	N/A	N/A

**CITY OF VANCOUVER**

Required Supplementary Information - Single Employer

Police Pension Trust Fund

December 31, 2017

**Schedule of Changes in Net Pension Liability and Related Ratios**

Last Four Fiscal Years

(In thousands)

	2017	Restated 2016	2015	2014
<b>Total pension liability</b>				
Interest	\$ 91	\$ 83	\$ 88	\$ 93
Effect of economic/demographic (gains) or losses	-	296	-	-
Effect of assumptions, changes or inputs	45	(49)	-	-
Benefit payments, including refunds of contributions	(250)	(285)	(217)	(301)
Net change in total pension liability	(114)	45	(129)	(208)
Total pension liability - beginning	2,548	2,503	2,632	2,841
Total pension liability - ending (a)	2,434	2,548	2,503	2,633
<b>Plan fiduciary net position</b>				
Contributions - employer	1,100	1,080	1,080	1,080
Police Auction Income	9	10	8	2
Net investment income	-	1	-	-
Prior period adjustment	1	-	-	9
Benefit payments, including refunds of contributions	(250)	(285)	(218)	(301)
Medical payments from fund	(652)	(612)	(475)	(587)
Administrative expense	(49)	(47)	(48)	(36)
Net change in plan fiduciary net position	159	147	347	167
Plan fiduciary net position - beginning	2,175	2,029	1,682	1,515
Plan fiduciary net position - ending (b)	2,334	2,176	2,029	1,682
Net pension liability ending (a) - (b)	\$ 100	\$ 372	\$ 474	\$ 951
Plan fiduciary net position as a % of total pension liability (b)/(a)	95.89%	85.40%	81.06%	63.88%
Covered-employee payroll	-	-	-	-
Net pension liability as a % of covered employee payroll	N/A	N/A	N/A	N/A

**CITY OF VANCOUVER**

Required Supplementary Information - Single Employer

Police and Fire Pension Trust Funds

December 31, 2017

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***Schedule of Investment Returns***

Last Four Fiscal Years

Retirement System	Year	Annual money-weighted rate of return, net of investment expense
Fire Pension Trust Fund	2017	0.73%
	2016	0.70%
	2015	0.42%
	2014	0.46%
Police Pension Trust Fund	2017	0.03%
	2016	0.03%
	2015	0.00%
	2014	0.02%

## CITY OF VANCOUVER

Notes to Required Supplementary Information

Police and Fire Pension Trust Funds

December 31, 2017

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### **Note 1:** Information Provided

The City implemented GASB 68 for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

### **Note 2:** Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions. Under the Police and Fire Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of the members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

### **Note 3:** Covered Payroll

There are no active employees participating in the City-sponsored plans, therefore, there is no covered payroll.

### **Note 4:** Significant Assumptions

Valuation date: January 1, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age
Amortization method	30 year closed
Remaining amortization period	16 years
Asset valuation method	Fair Value
Inflation	2.25%
Salary increases	3.25%
Investment rate of return	3.50%, net of pension plan investment expense, including inflation
Retirement age	53
Mortality	RP-2000 Mortality Table (combined healthy)

**CITY OF VANCOUVER**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2017

Table 20

Grantor/ Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Direct Federal Expenditures	Indirect Federal Expenditures	Total Federal Expenditures	Passed through to Subrecipients	Foot- Note Ref.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY</b>							
Office of Solid Waste and Emergency Response Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00J80201-0	178,992				
Office of Water <b>Drinking Water State Revolving Fund Cluster</b> <i>Passed through Washington State Department of Health:</i>							
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N22036		28,995			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N21981		18,204			
<b>Total Drinking Water State Revolving Fund Cluster</b>				<b>47,199</b>			
<b>TOTAL DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY</b>			<b>178,992</b>	<b>47,199</b>	<b>226,191</b>		
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>							
Office of Community Planning and Development <b>Community Development Block Grants (CDBG) - Entitlement Grants Cluster</b>							
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-53-0013	26,198				3,5
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53-0013	112,916				3,5
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0013	107,869				3,5
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-53-0013	688,352			495,700	3,5
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-53-0013	204,340			80,343	3,5
Total CFDA 14.218			<b>1,139,675</b>			<b>576,043</b>	
<b>Total CDBG - Entitlement Grants Cluster</b>			<b>1,139,675</b>			<b>576,043</b>	
Home Investment Partnerships Program	14.239	M-15-MC-53-0208	1,011				5
Home Investment Partnerships Program	14.239	M-16-MC-53-0208	456,118			419,039	3,5
Home Investment Partnerships Program	14.239	M-17-MC-53-0208	12,858				5
Total CFDA 14.239			<b>469,987</b>			<b>419,039</b>	
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<b>1,609,662</b>		<b>1,609,662</b>	<b>995,082</b>	

The Notes to the schedule of Expenditures of Federal Awards is an integral part of this statement

**CITY OF VANCOUVER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2017

Table 20

Grantor/ Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Direct Federal Expenditures	Indirect Federal Expenditures	Total Federal Expenditures	Passed through to Subrecipients	Foot- Note Ref.
<b>DEPARTMENT OF JUSTICE</b>							
Violence Against Women Office <i>Passed through Clark County:</i> Violence Against Women Formula Grants	16.588	F-16-31103-045		4,970			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	2014-WE-AX-0039	68,178			40,375	5
Office of Community Oriented Policing Services Public Safety Partnership & Community Policing Grants	16.710	2010-CS-WX-0015	13,918				
Bureau of Justice Assistance <i>Passed through Clark County:</i> Edward Byrne Memorial Justice Assistance Grant Program Edward Byrne Memorial Justice Assistance Grant Program Edward Byrne Memorial Justice Assistance Grant Program	16.738 16.738 16.738	2014-DJ-BX-0841 2015-DJ-BX-0542 2016-DJ-BX-0123		7,533 28,054 17,004 52,591			
Total CFDA	16.738						
		<b>TOTAL DEPARTMENT OF JUSTICE</b>	82,096	57,561	<b>139,657</b>	40,375	
<b>DEPARTMENT OF LABOR</b>							
Employment Training Administration Office <b>WIOA Cluster</b> <i>Passed through WorkSource</i> WIOA Dislocated Worker Formula Grants	17.278	6107-1207		2,975 2,975			
Total CFDA	17.278						
<b>Total WIOA Cluster</b>				<b>2,975</b>			
		<b>TOTAL DEPARTMENT OF LABOR</b>		2,975	<b>2,975</b>		

The Notes to the schedule of Expenditures of Federal Awards is an integral part of this statement



**CITY OF VANCOUVER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2017

Table 20

Grantor/ Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Direct Federal Expenditures	Indirect Federal Expenditures	Total Federal Expenditures	Passed through to Subrecipients	Foot- Note Ref.
<b>DEPARTMENT OF TRANSPORTATION</b>							
Federal Aviation Administration Airport Improvement Program	20.106	3-53-0139-010-2016	182,861				
<b>Federal Transit Cluster</b>							
Passed through Clark County Public Transportation Benefit Area Authority:							
Federal Transit Capital Investment Grants	20.500	WA-04-0105-00		59,660			6
<b>Total Federal Transit Cluster</b>				<b>59,660</b>			
<b>Highway Planning and Construction Cluster</b>							
Passed through Washington State Department of Transportation:							
Highway Planning and Construction	20.205	HSIP-4242(025)		1,411,367			
Highway Planning and Construction	20.205	STPUL-4221(004)		156,868			
Highway Planning and Construction	20.205	CM-4451(013)		21,297			
Highway Planning and Construction	20.205	CM-4253(013)		844,531			
Highway Planning and Construction	20.205	CM-9906(041)		449,561			
Highway Planning and Construction	20.205	CM-9906(047)		28,168			
Highway Planning and Construction	20.205	STPUL-4266(002)		31,413			
Highway Planning and Construction	20.205	STPUL-4254(005)		6,251,761			
Highway Planning and Construction	20.205	TCSP-TAP-12WA(003)		705,407			
Highway Planning and Construction	20.205	STPUL-1380(027)		76,014			
<b>Total CFDA 20.205</b>				<b>9,976,387</b>			
Federal Highway Administration Federal Lands Access Program	20.224	DTFH7016E00035	344,143				
<b>Total Highway Planning and Construction Cluster</b>			<b>344,143</b>	<b>9,976,387</b>			
<b>Highway Safety Cluster</b>							
Passed through Washington Association of Sheriffs & Police Chiefs:							
State and Community Highway Safety	20.600	Traffic Safety Equipment Grant		11,910			
Passed through State of Washington Traffic Safety Commission:							
State and Community Highway Safety	20.600	DUI Emphasis		6,235			
State and Community Highway Safety	20.600	Seat Belt Emphasis		2,788			
State and Community Highway Safety	20.600	Section 402		9,652			
<b>Total CFDA 20.600</b>				<b>30,585</b>			

The Notes to the schedule of Expenditures of Federal Awards is an integral part of this statement

**CITY OF VANCOUVER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2017

Table 20

Grantor/ Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Direct Federal Expenditures	Indirect Federal Expenditures	Total Federal Expenditures	Passed through to Subrecipients	Foot- Note Ref.
<b>DEPARTMENT OF TRANSPORTATION - Continued</b>							
<i>Passed through State of Washington Traffic Safety Commission:</i>							
National Priority Safety Programs	20.616	M6X17-11		71,647			
National Priority Safety Programs	20.616	M6X18-05		20,282			
National Priority Safety Programs	20.616	M6X17-04		1,581			
Total CFDA	20.616			93,510			
<b>Total Highway Safety Cluster</b>				<b>124,095</b>			
<b>TOTAL DEPARTMENT OF TRANSPORTATION</b>			527,004	10,160,142	<b>10,687,146</b>		
<b>DEPARTMENT OF HOMELAND SECURITY</b>							
<i>Federal Emergency Management Agency (FEMA)</i>							
Assistance to Firefighters Grant	97.044	EMW-2015-FO-07040	100,507				
Assistance to Firefighters Grant	97.044	EMW-2015-FP-00660	135,956				
Total CFDA	97.044		236,463				
<i>Passed through Clark Regional Emergency Services Agency:</i>							
Homeland Security Grant Program	97.067	E16-063		69,740			
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>			236,463	69,740	<b>306,203</b>		
<b>TOTAL FEDERAL EXPENDITURES</b>					<b>\$ 12,971,834</b>		

The Notes to the schedule of Expenditures of Federal Awards is an integral part of this statement

# Schedule of Federal Awards

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

Schedule of Expenditures of Federal Awards (SEFA) Table 20

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

- NOTE 1

**BASIS OF ACCOUNTING**  
The SEFA is prepared on the same basis of accounting as the City's financial statements. The City of Vancouver uses the accrual basis of accounting.
- NOTE 2

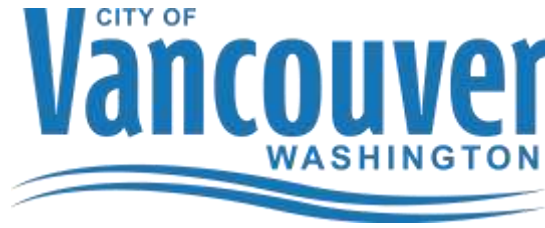
**PROGRAM COSTS**  
The amounts shown as current year expenditures represent only federal grant portions of the program costs. Entire program costs, including the City's portion may be more than shown.
- NOTE 3

**PROGRAM INCOME**  
**Revolving Loan -** The City has a revolving loan program for low income housing. Under this federal grant, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.
- NOTE 4

**INDIRECT COST RATE**  
The City does not have an approved indirect cost rate and has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- NOTE 5

**Subrecipient Reporting**  
Per Uniform Guidance, disbursements of funds to subrecipients is reported on the SEFA in the fiscal year it is paid to the subrecipient.
- NOTE 6

**Donated ROW from C-Tran**  
The City of Vancouver received donated right of way from Clark County Public Transportation Benefit Area Authority (C-Tran) late in 2016 which was not previously reported in the SEFA for that year, therefore the amount is being reported in the current year SEFA.



## **CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE**

**City of Vancouver**

**Clark County**

**January 1, 2017 through December 31, 2017**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2017-001	<b>Finding caption:</b> City's internal controls over accounting and financial preparation were not adequate to ensure accurate and complete financial reporting.
<b>Name, address, and telephone of City contact person:</b> David Shick, Accounting Manager PO Box 1995, Vancouver, WA 98668 (360) 487-8441	
<b>Corrective action the auditee plans to take in response to the finding:</b> (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence). <i>The City is dedicated to providing accurate and complete financial reports and to the continual improvement of its internal controls. The City made a prior period adjustment based upon the external auditor recommendations resulting from the prior audit to correct a previous misstatement in asset useful life that did not correspond with the City's policy related to asset depreciation. The asset in question is the City's Vancouver Center parking garage. The depreciation schedule was set once the asset was constructed in 2003. The external auditors pointed out life of the asset as being too short during the 2016 audit. The city promptly addressed the issue by making a corrective entry in early 2017 that increased the useful life of the asset from 20 years to 40 years, consistent with the anticipated useful life of other buildings and addressing the auditor's concerns. No other step related to the asset in question is necessary at this point.</i> <i>The City is currently developing a re-evaluation process and cycle for depreciable asset useful lives, which will be established during 2018 and commence no later than 2019. Additionally, the City's new</i>	

*financial system Workday, once implemented in 2019, will help to automate annual re-evaluation process and cycle for depreciable asset useful lives.*

*The City reported fund balances of governmental funds correctly in their totality by fund in the City's financial statements. The City is developing tools and will update its processes to document its calculation of fund balance classifications between non-spendable, restricted, committed, assigned and unassigned balances categories for all funds. This will be completed by December 31, 2018.*

**Anticipated date to complete the corrective action:** January 1, 2019

## 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>