



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Spokane Valley

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

Published September 20, 2018

Report No. 1022074





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

September 20, 2018

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Spokane Valley January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Spokane Valley
January 1, 2017 through December 31, 2017**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, 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 August 29, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 12, 2018.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

August 29, 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 Spokane Valley
January 1, 2017 through December 31, 2017**

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

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

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

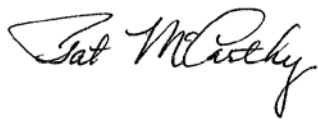
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of 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

August 29, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Spokane Valley January 1, 2017 through December 31, 2017

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, 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 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 14 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 August 29, 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.



Pat McCarthy

State Auditor

Olympia, WA

August 29, 2018

FINANCIAL SECTION

City of Spokane Valley 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 Governmental Funds to the 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 Statement of Activities – 2017

Statement of Net Position – Proprietary Fund – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual –
General Fund – 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual –
Street Fund – 2017

Schedule of Proportionate Share of Net Pension Liability – 2017

Schedule of Employer Contributions – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

CITY OF SPOKANE VALLEY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

As management of the City of Spokane Valley, Washington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in thousands of dollars. Also, this discussion contains comparative analysis based on information from the prior year.

FINANCIAL HIGHLIGHTS

The key financial highlights for 2017 are as follows:

The City of Spokane Valley's financial position improved. At the end of the current fiscal year, assets exceeded liabilities by \$169,013 thousand (*net position*). Of this amount, \$52,711 thousand represents the primary government's unrestricted net position, which may be used and is available to meet the City's ongoing activities and obligations to the citizens and creditors.

The City of Spokane Valley's total net position from Governmental and Business-type activities increased \$13,853 thousand or 8.93% from the prior fiscal year, primarily explained by revenues continuing to outpace expenditures and the current year's increase in the City's Net Investment in capital assets.

At the close of the current fiscal year, the City of Spokane Valley's governmental funds reported combined fund balances of \$57,412 thousand, an increase of \$862 thousand in comparison with the prior year. Approximately 68.21% of this amount or \$39,336 thousand (*unassigned fund balance*) is available for spending at the City's discretion.

Also, at the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned, and unassigned* components of *fund balance*) for the general fund was \$39,336 thousand, or approximately 116.36% of the total general fund expenditures, and the net change in actual fund balance increased by \$4,607 thousand during the current fiscal year.

Total Long-term liabilities for Governmental type activities decreased by \$1,752 thousand to \$19,150 thousand during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Statement of Net Position and Statement of Activities

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of net position – As noted earlier, net position over time, may serve as a useful indicator of the City of Spokane Valley's financial position. The City's total assets and deferred outflows exceeded total liabilities and deferred inflows by \$169,013 thousand as of December 31, 2017. The following table summarizes and compares the City's net position for 2017 and 2016 (*see Table 1, below*):

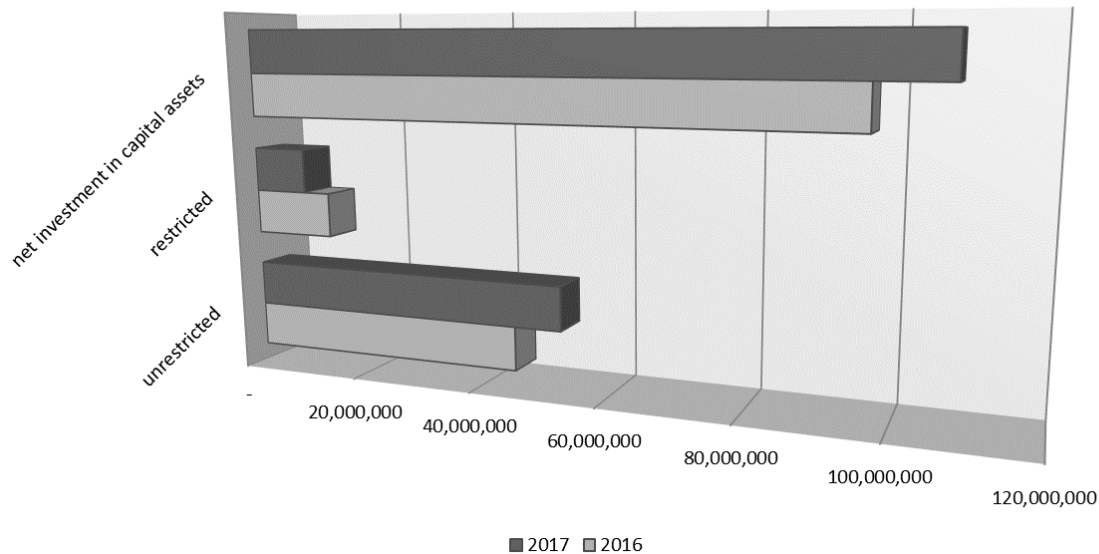
City of Spokane Valley's Net Position (amounts in thousands)						
<i>Table 1</i>	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 69,800	\$ 68,938	\$ 4,212	\$ 3,285	\$ 74,012	\$ 72,223
Capital assets (net of depreciation)	115,055	104,822	6,344	6,356	121,399	111,178
Total assets	184,855	173,760	10,556	9,641	195,411	183,401
Total deferred outflows of resources	688	1,023	40	54	728	1,077
Long-term liabilities	19,150	20,902	300	343	19,450	21,245
Other liabilities	6,322	7,664	519	277	6,841	7,941
Total liabilities	25,472	28,566	819	620	26,291	29,186
Total deferred inflows of resources	788	125	46	7	834	132
Net position:						
Net investment in capital,						
assets	101,125	90,361	6,344	6,356	107,469	96,717
Restricted	8,833	13,238	-	-	8,833	13,238
Unrestricted	49,325	42,493	3,386	2,712	52,711	45,205
Total net position	\$ 159,283	\$ 146,092	\$ 9,730	\$ 9,068	\$ 169,013	\$ 155,160

In this case, as of December 31, 2017, the Primary Government's assets and deferred outflows exceeded liabilities and deferred inflows by \$159,283 thousand in governmental activities and \$9,730 thousand in business type activities. The largest portion of the City's net position, at 62.33%, is its investment in capital assets of \$107,469 thousand. This represents land and land improvements, buildings and building improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure, less any related outstanding debt that was used to acquire those assets.

The City of Spokane Valley uses these capital assets to provide a variety of services to its citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The majority of these capital assets were donated by Spokane County at the time of incorporation in 2003. The portion of the City of Spokane Valley's net position classified as restricted are resources that are subject to external restrictions on how they may be used. At \$8,833 thousand and 5.23% of total net position this is the smallest share of the City's net position. The remaining balance of \$52,711 thousand or 31.19% is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

City of Spokane Valley's Net Position December 31, 2017 and 2016



The City of Spokane Valley's total net position has increased by \$13,853 thousand or 8.93% from the prior year. This is primarily explained by revenues outpacing expenditures. More discussion will follow for the overall increase in net position in the sections for governmental-type and business-type activities.

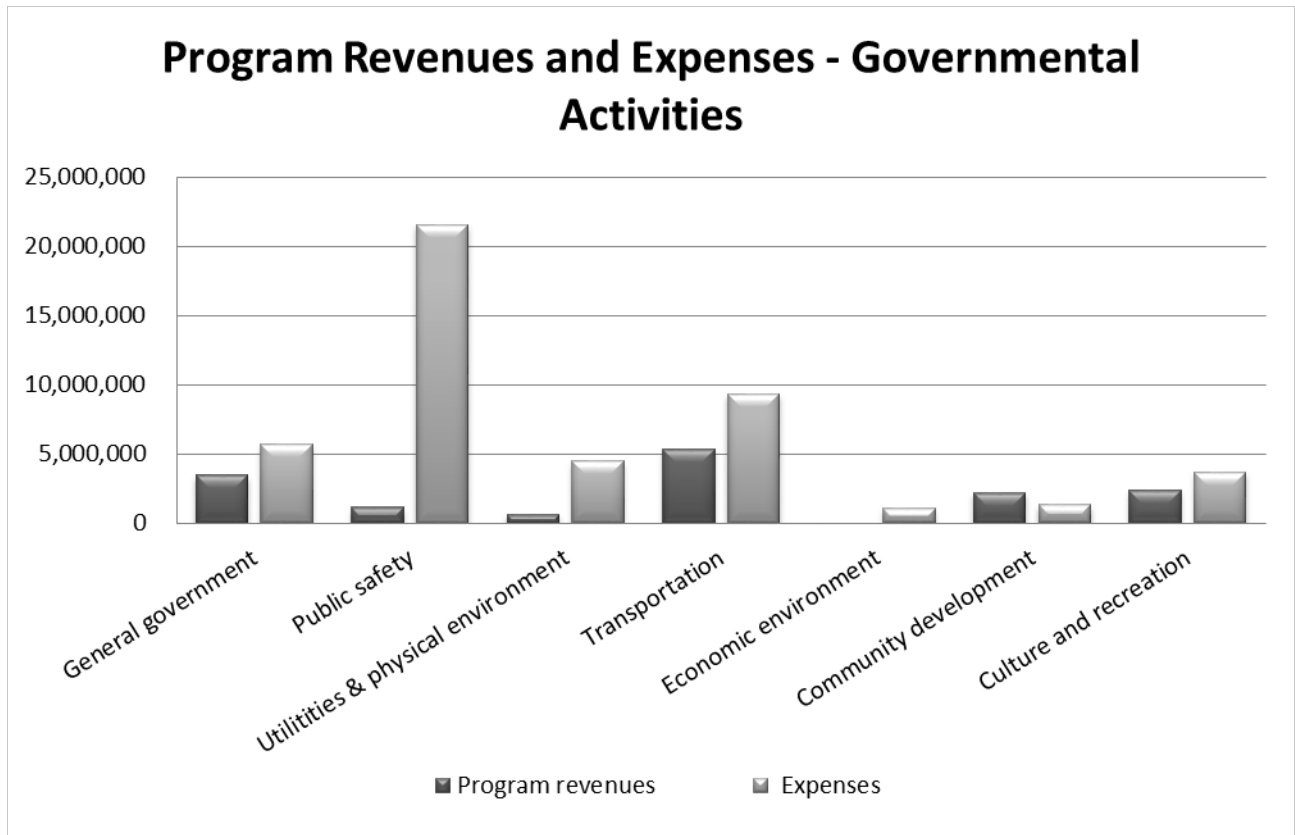
Governmental-type Activities – During the current fiscal year total net position for governmental activities increased by \$13,191 thousand from the prior year for an ending balance of \$159,283 thousand. The increase in the overall net position of governmental activities is the result of management taking various steps (e.g., increasing rates for certain revenue sources like charges for services, delaying certain nonrecurring expenses, and reducing expenses related to non-essential ongoing programs in the utilities & physical environment and community development functions) to achieve such positive effects on the governmental activities ending net position. The City's capital grants and operating grants and contribution revenues from Federal and State sources made up the fourth largest sources of revenue combined, \$7,521 thousand or 12.45% of total governmental activities revenues.

The major recipients of intergovernmental program revenues were, Transportation, Utilities and Physical Environment, and General Government functions of the primary government. Property tax general revenues in the governmental funds account for \$11,602 thousand of the \$60,397 thousand total revenues (less transfers) for governmental-type activities, or 19.21% of total revenues, and the property tax general revenues increased by \$172 thousand. Sales Tax general revenue accounted for approximately \$23,941 thousand or 39.64% of total revenues in year 2017, the largest single source of revenue for the City of Spokane Valley. Excise and other taxes received were Real Estate Excise Taxes of \$3,064 thousand, Liquor Board Excise Tax of \$459 thousand, Telephone Utility Tax of \$1,982 thousand, Marijuana Excise Taxes of \$41 thousand, Leasehold Excise Taxes of \$20 thousand, and Gambling Taxes of \$368 thousand, Hotel/Motel Taxes of \$1,019 thousand and Motor Fuel Excise Taxes of \$2,052 thousand.

The Transportation function accounted for \$9,330 thousand of the \$47,219 thousand in total expenses for governmental activities, or 19.76% of the total in expenses. The largest function was Public Safety, accounting for \$21,583 thousand and representing 45.71% of total governmental expenses and a decrease of 6.86% in contracted Law Enforcement services compared to the prior year (*see table 2, below*).

Table 2
City of Spokane Valley's Changes in Net Position
as of December 31, 2017 and 2016 (amounts in thousands)

	Governmental Activities		Business-type Activities		Total		% Change
Revenues	2017	2016	2017	2016	2017	2016	2017-2016
Program revenues							
Charges for services	\$ 7,813	\$ 8,192	\$ 1,895	\$ 1,898	\$ 9,708	\$ 10,090	-3.8%
Operating grants & contributions	702	1,254	784	450	1,486	1,704	-12.8%
Capital grants & contributions	6,819	6,895	97	-	6,916	6,895	0.3%
General revenues							
Taxes	44,548	42,237	-	-	44,548	42,237	5.5%
Interest & investment earnings	515	248	31	10	546	258	111.6%
Total revenues	60,397	58,826	2,807	2,358	63,204	61,184	3.3%
Expenses							
General government	5,155	6,129	-	-	5,155	6,129	-15.9%
Public safety	21,583	23,173	-	-	21,583	23,173	-6.86%
Utilities & physical environment	4,500	3,368	-	-	4,500	3,368	33.6%
Transportation	9,330	8,740	-	-	9,330	8,740	6.8%
Economic environment	1,095	1,122	-	-	1,095	1,122	-2.4%
Community development	1,355	2,039	-	-	1,355	2,039	-33.5%
Culture and recreation	3,692	3,841	-	-	3,692	3,841	-3.9%
Interest on long term debt	509	317	-	-	509	317	60.6%
Aquifer protection area	-	-	171	154	171	154	11.0%
Stormwater management	-	-	1,960	1,960	1,960	1,960	0.0%
Total expenses	47,219	48,729	2,131	2,114	49,350	50,843	-2.9%
Increase (decrease) in net position before transfers	13,178	10,097	676	244	13,854	10,341	34.0%
Transfers In (out)	13	13	(13)	(13)	-	-	0.0%
Increase (decrease) in net position	13,191	10,110	663	231	13,854	10,341	34.0%
Net position - beginning	146,092	135,982	9,068	8,837	155,160	144,819	
Change in Accounting Principle	-	-	-	-	-	-	
Net position - ending	\$ 159,283	\$ 146,092	\$ 9,731	\$ 9,068	\$ 169,014	\$ 155,160	



Transportation activity capital grants decrease in the current year by (\$1,423) thousand primarily due to the Sullivan Bridge construction project grants, which were a major portion of activity in the prior year, being consumed. This resulted in a higher percentage of City funds being used for the large project as we moved nearer to completion. These contributions are used to fund the on-going general government capital outlays of \$16,972 thousand, or 29.43% of the total for governmental funds expenditure activity (*see the preceding graph*).

Business-type Activities – For the City of Spokane Valley’s business-type activities, the results for the current fiscal year were positive in that the overall net position increased to reach an ending balance of \$9,730 thousand. The increase in net position for business-type activities (stormwater and aquifer protection funds) was \$662 thousand from the prior fiscal year. This is an increase in net position of 7.3% from the prior fiscal year. The increase in fund balance is indicative of revenues continuing to exceed expenditures. Overall, revenues for the business type activities were up compared to the previous year. In 2017 there were \$97 thousand capital grants or contributions compared to zero in 2016. Additionally, operating grants and contributions increased by an additional \$334 thousand. Charges for services remained fairly stable with a modest decrease of (\$3) thousand from 2016. Expenditures did show increase of \$17 thousand for 2017 total. In both business-type funds, the major program revenue sources were *charges for services* of \$1,895 thousand and *intergovernmental revenues* of \$784 thousand. The primary source of revenues is a Stormwater Management Fee imposed upon real property and the Aquifer Area Protection Fee mandated by the voting public.

FINANCIAL ANALYSIS OF THE CITY OF SPOKANE VALLEY'S FUNDS

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

Governmental Funds - The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year and represent the portion of fund balance which has not been limited to use for a particular purpose by either an external party, the City of Spokane Valley itself, or from a group or individual that has delegated authority to assign these resources to be used for particular purposes by the City of Spokane Valley's Council.

As of December 31, 2017, the City's total governmental funds reported a combined ending fund balance of \$57,412 thousand, a net increase of \$862 thousand in comparison with the prior year. Approximately 68.52% of this amount or \$39,336 thousand is composed of *unassigned fund balance*, which is available for spending at the City's discretion. The City's remainder or residual fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not spendable in form (\$101 thousand), 2) restricted for particular purposes (\$8,387 thousand), 3) committed for particular purposes (\$5 thousand) assigned for particular purposes (\$9,583 thousand) *See table 4, below.*

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

General Fund Components of Fund Balance		
December 31, 2017 & 2016 (amounts in thousands)		
<i>Table 3</i>	Fiscal Year	
	2017	2016
Unassigned	\$ 39,336	\$ 34,695
Assigned	-	-
Restricted	38	80
Nonspendable	90	82
Total fund balances	\$ 39,464	\$ 34,857

At the end of 2017, unassigned fund balance was \$39,336 thousand, while total fund balance increased to \$39,464 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total governmental funds expenditures. Unassigned fund balance in the general fund represents approximately 68.21% of the total governmental funds expenditures, while total general fund balance of \$39,464 thousand represents approximately 68.43% of that same amount in total governmental funds expenditures *See table 3 above.*

All Remaining Governmental Funds Components of Fund Balance		
December 31, 2017 & 2016 (amounts in thousands)		
<i>Table 4</i>	Fiscal Year	
	2017	2016
Unassigned	\$ -	\$ -
Assigned	9,584	8,381
Committed	5	237
Restricted	8,348	13,070
Nonspendable	11	5
Total fund balances	\$ 17,948	\$ 21,693

Major Governmental Funds

The General Fund – The fund balance of the City of Spokane Valley’s general fund increased by \$4,607 thousand, compared to last year, for the fiscal year ending December 31, 2017. In the Budget to Actual Schedule, revenues trended higher than expected in the 2017 budget by \$2,556 thousand, while the total expenditures were \$5,876 thousand (including transfers in/out) less than the amended budget. Ultimately, the General Fund in the Governmental funds statement reports an increase in excess of revenues over expenditures, positive variance with final budget over of \$8,451 thousand compared to the last fiscal year of 2016 of \$5,793 thousand.

The Street Fund – had an ending actual fund balance of \$1,067 thousand, a net change in fund balance of (\$251) thousand compared to the prior year. The primary source of revenues for the Street fund is the Telephone Utility taxes of \$1,982 thousand and the Motor Vehicle Gas tax of \$2,052 thousand in Intergovernmental revenues collected. The change from the prior year was a decrease of (4.2%) for Telephone Utility taxes and an increase of 1.31% for Motor Vehicle Gas tax. Expenditures (including transfers out) outpaced revenues, which contributed to the slight decrease in ending fund balance compared to last year.

Street Capital Projects Fund – had an ending fund balance of \$67 thousand. Actual expenditures were \$3,182 thousand less than the final budgeted projections. Overall, the net change in fund balance was less than the final budgeted projections for 2017.

City Hall Construction Fund – had an ending fund balance of \$101 thousand. Actual expenditures were \$34 thousand less than final budget projections. The net change in fund balance was \$26 thousand more than budgeted for 2017.

Proprietary Funds - The City’s enterprise funds, **Stormwater Management** and **Aquifer Protection Area** provide the same type of information found in the government-wide financial statements, and are also *major proprietary funds*. Unrestricted net position of the Stormwater Management Fund at December 31, 2017, was \$1,973 thousand and for the Aquifer Area Protection fund was \$1,413 thousand.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget: By State law, Title 35A of the Revised Code of Washington (RCW) requires all cities to prepare and adopt a balanced budget prior to the beginning of the City’s fiscal year; the annual operating budget for the City is effective the first day of January. The City Council amended the original budget revenue and expenditures twice during 2017 due to updates in budget estimates and timing differences in expenditures during the fiscal year.

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

2017 Budget to Actual Comparison (amounts in thousands)			
Revenue Source	Final Estimated Revenues	Actual Revenues	Difference
Taxes	\$ 34,396	\$ 35,838	\$ 1,442
Licenses and permits	2,236	2,972	736
Intergovernmental revenues	2,274	2,556	283
Charges for services	1,315	1,298	(17)
Fines & forfeitures	528	428	(100)
Investment Interest	73	326	253
Miscellaneous	707	666	(41)
	\$ 41,528	\$ 44,085	\$ 2,556

In the General Fund, the variance between actual expenditures and the final amended budget was a savings in expenditures of \$5,876 thousand giving the City a positive variance in excess of revenues over expenditures of \$8,432 thousand for 2017. Actual negative revenue variances in charges for services of \$17 thousand, fines and forfeitures of \$100 thousand, and miscellaneous of \$41 thousand coupled with revenue increases in tax revenue of \$1,442 thousand, licenses and permits of \$736 thousand, intergovernmental revenues of \$283 thousand, and investment interest of \$253 thousand paired with a positive variance in revenues over expenditures contributed overall to an increase in fund balance of \$4,607 thousand for the fiscal year of 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: The City of Spokane Valley's investment in capital assets for its governmental and business type activities as of December 31, 2017, amounts to \$121,399 thousand (net of depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and construction in progress. The total increase in the city's investments in capital assets for the current fiscal year was \$10,221 thousand or 9.2% (*see table 5, following*).

	City of Spokane Valley's Capital Assets (net of depreciation, amounts in thousands)						
	Governmental		Business-type		Total		Total %
	Activities		Activities				Change
	2017	2016	2017	2016	2017	2016	2017-2016
Land	\$ 9,220	\$ 8,323	\$ -	\$ -	\$ 9,220	\$ 8,323	10.8%
Buildings & leasehold improvements	21,483	8,777	297	310	21,780	9,087	139.7%
Improvements other than Buildings	5,987	6,814	-	-	5,987	6,814	-12.1%
Infrastructure	72,708	65,834	5,934	5,936	78,642	71,770	9.6%
Machinery and Equipment	2,212	911	22	27	2,234	938	138.2%
Construction in Progress	3,445	14,163	91	83	3,536	14,246	-75.2%
Total	\$ 115,055	\$ 104,822	\$ 6,344	\$ 6,356	\$ 121,399	\$ 111,178	9.2%

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

- A 10.8% increase in land totaling \$897 thousand is the result of purchases to facilitate current or planned improvements to the City's road network.
- Construction in Progress decreased by 75.2% or \$10,710 thousand due to the completion of construction on the New City Hall building.
- There was a total of increase of 138.2% or \$1,296 thousand in Machinery and Equipment for fiscal year 2017 due to the purchase of various pieces of equipment.
- Infrastructure increased 9.6% or \$6,872 thousand for 2017 due mostly to the completion of several street construction and street preservation projects.
- There was a total increase of 139.7% or \$12,693 thousand in Buildings and leasehold improvements due to the completion of the New City Hall.
- Overall change in capital assets for 2017 increased by 9.2% compared to the prior year of 2016.

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

Long-Term Liabilities – At December 31, 2017, the City had total Limited Tax General Obligation debt outstanding of \$12,790 thousand. This amount is backed by the full faith and credit of the City of Spokane Valley with debt service funded by general government revenues and contributions from the Public Facilities District. The City's general obligation bonds decreased by \$470 thousand or 3.5% during fiscal year 2017. (*See table 6, below*).

Table 6

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	2017-2016
General obligation bonds	\$ 12,790	\$ 13,260	\$ -	\$ -	\$ 12,790	\$ 13,260	-3.5%
Bond premium	1,140	1,201	-	-	1,140	1,201	-5.1%
Compensated absences	505	492	25	27	530	519	2.1%
Net pension plan liabilities (GASB 68)	4,715	5,949	275	316	4,990	6,265	-20.4%
Total	\$ 19,150	\$ 20,902	\$ 300	\$ 343	\$ 19,450	\$ 21,245	-8.4%

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

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

The 2016 assessed valuation of the City of Spokane Valley for the levy year of 2017, for purposes of determining the legal debt margin is \$8,124,488 (in thousands). Remaining debt capacities for the City under general voted and non-voted purposes (2.5%) is limited to: \$596,041 (in thousands).

The City of Spokane Valley maintains an Aa2 rating from Moody's for its non-voted general obligation debt. Additional information regarding debt limitations and capacities can be found in **Note 9 (Legal Debt Margin)** in the notes to the financial statements.

ECONOMIC FACTORS

The following economic factors currently affect the City of Spokane Valley and were considered in developing the 2017-2018 fiscal year budgets.

The outlook for the City of Spokane Valley economy was projected based on statistics generated in Spokane County. There is estimated to be over 5,275 businesses located in Spokane Valley with estimated taxable retail sales of \$2.5 billion for 2017. The City of Spokane Valley received \$23,941 thousand, an increase of \$1,359 thousand from the prior year, in general sales tax dollars for 2017.

Overall, Spokane County gained about 6,700 jobs in 2017. The current year's increase in jobs left the county with an estimated average of 226,351 jobs for the year, which has surpassed the peak year of 2008 with 224,950 jobs. This builds on the 6,800 positions from 2016 and brings the County's area wide unemployment rate to down an additional 1% to 5.5%. Spokane County's fastest growing non-farm employment sector is construction, followed closely by production. These sectors are predicted to grow the most through 2020. Population growth has been steady within the City of Spokane Valley, increasing to 94,890 and growing 5.2% since 2010.

The total number of single family residential building permits in the Spokane County area-wide region (including the City of Spokane and the City of Spokane Valley) increased to 1,283 in 2017, from 1,274 issued in 2016. Additionally, total 2017 nonresidential building permits issued by the City of Spokane Valley were 430 compared to 593 in 2016.

The Real Estate market continues its upswing from the most recent low of 2011. Spokane County home sales have increased to 8,137. With an average selling price of \$228,732, single family home sale prices are at the highest over the past 15 years with 2007 being the previous high at \$211,872. For The median price of a home in the Spokane metropolitan area was approximately \$223,400 in 2017, which is roughly \$23,100 lower than the U.S. median price of \$246,500.

The City of Spokane Valley's assessed value increased 4.9% to 8.1 billion in 2017. The City's property tax levy rate for 2017 was near \$1.4335 per thousand of assessed value.

The City of Spokane Valley contracts with Spokane County and several public service districts for many city services including street maintenance, public safety, library, and fire protection. This allows the City to hold the number of full-time employees to 89.25 Employee salaries and related benefits are the leading cost for much of the city's operations. In a 2015 study, a comparison of 31 cities with a populations of 100,000 or less was conducted within the State of Washington and the City of Spokane Valley had the fewest number of employees based on Washington cities with a population greater than 50,000 and over.

No significant general fund tax increases were implemented in 2017. Beginning April 1, 2017 the local sales tax rate increased by 0.1%. This had the effect of increasing the total sales tax rate to 8.8%. The telephone utility tax of 6% continues to be collected during 2017 in the City's Street Fund.

During the fiscal year of 2017, unassigned fund balance in the general fund was \$39,336 thousand. As noted in the City of Spokane Valley's 2018 budget document, the total recurring 2018 general fund expenditure budget is \$40,891 thousand as compared to \$40,054 thousand in 2017. This means that the general fund recurring expenditure budget only increased by 2.09% as compared to 2017. The 2018 budget presumes service levels that are consistent with those provided in 2017 with neither significant enhancements nor reductions in any area of operations.

REQUEST FOR INFORMATION

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

City of Spokane Valley
Finance Department
Chelsie Taylor, Finance Director
10210 E Sprague Ave.
Spokane Valley, Washington 99206.

City of Spokane Valley, Washington
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental	Business-type	
ASSETS	Activities	Activities	Total
Cash and cash equivalents	\$ 56,859,485	\$ 3,862,725	\$ 60,722,210
Taxes receivable	5,915,734	54,028	5,969,762
Taxes delinquent-receivable	146,635	-	146,635
Accounts receivable, (net)	2,659,426	-	2,659,426
Interest receivable	55,858	3,804	59,662
Grants receivable	1,912,415	290,077	2,202,492
Due from other funds	1,804,937	-	1,804,937
Prepays	445,701	1,200	446,901
Capital Assets:			
Land	9,219,847	-	9,219,847
Depreciable assets, (net)	102,390,025	6,253,159	108,643,184
Construction in progress	3,444,882	91,063	3,535,945
Total Assets	\$ 184,854,945	\$ 10,556,056	\$ 195,411,001
DEFERRED OUTFLOWS OF RESOURCES			
<i>Pension plans contributions</i>	687,918	39,984	727,902
Total deferred outflows of resources	687,918	39,984	727,902
LIABILITIES			
Accounts payable	\$ 3,039,300	\$ 75,344	\$ 3,114,644
Interest payable	38,117	-	38,117
Due to other funds	1,804,937	-	1,804,937
Deposits and other payables	887,546	80,696	968,242
Other accrued liabilities	552,548	35,517	588,065
Unearned revenues	-	327,792	327,792
Long-term liabilities:			
Due within one year	594,106	621	594,727
Due in more than one year	13,840,706	24,236	13,864,942
Net pension plan liabilities	4,715,034	275,227	4,990,261
Total Liabilities	25,472,294	819,433	26,291,727
DEFERRED INFLOWS OF RESOURCES			
<i>Diff. between expected & actual pension plan earnings</i>	787,725	45,888	833,613
Total deferred inflows of resources	787,725	45,888	833,613
NET POSITION			
Net Investment in capital assets	101,125,167	6,344,222	107,469,389
Restricted for:			
Capital projects, REET, roads & streets, solid waste	6,600,340	-	6,600,340
Parks & recreation programs	100,218	-	100,218
Hotel/motel tourism facilities	1,228,595	-	1,228,595
Hotel/motel tourism promotion	221,867	-	221,867
Comcast PEG, communications	54,837	-	54,837
City hall construction	101,076	-	101,076
Trails & paths	46,324	-	46,324
HRA AWC	33,785	-	33,785
Prepaid expenses	445,701	-	445,701
Unrestricted	49,324,934	3,386,497	52,711,431
Total Net Position:	159,282,844	9,730,719	169,013,563

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

City of Spokane Valley, Washington
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants & Contributions	Grants & Contributions			
Primary government:							
Governmental activities:							
General government	\$ 5,154,789	\$ 3,063,787	\$ 456,221	\$ (27,205)	\$ (1,661,986)	\$ -	\$ (1,661,986)
Public safety	21,582,876	1,158,803	-	-	(20,424,073)	-	(20,424,073)
Utilities and physical environment	4,500,037	295,617	176,758	180,116	(3,847,546)	-	(3,847,546)
Transportation	9,330,326	369,591	10,982	4,999,807	(3,949,946)	-	(3,949,946)
Economic environment	1,095,367	-	-	-	(1,095,367)	-	(1,095,367)
Community development	1,354,999	2,219,811	-	-	864,812	-	864,812
Culture and recreation	3,692,565	705,118	57,592	1,666,873	(1,262,982)	-	(1,262,982)
Interest on long-term debt	508,717	-	-	-	(508,717)	-	(508,717)
Total governmental activities	47,219,676	7,812,727	701,553	6,819,591	(31,885,805)	-	(31,885,805)
Business-type activities:							
Aquifer protection area	170,856	-	452,110	58,722	-	339,976	339,976
Stormwater management	1,960,208	1,895,033	331,822	38,385	-	305,032	305,032
Total business-type activities	2,131,064	1,895,033	783,932	97,107	-	645,008	645,008
Total primary government	\$ 49,350,740	\$ 9,707,760	\$ 1,485,485	\$ 6,916,698	(31,885,805)	645,008	(31,240,797)
General revenues:							
Taxes:							
Property taxes					11,601,904	-	11,601,904
Sales and use taxes					23,941,374	-	23,941,374
Excise taxes					5,636,498	-	5,636,498
Other taxes					3,369,179	-	3,369,179
Interest and investment earnings					514,605	30,801	545,406
Transfers					13,400	(13,400)	-
Total general revenues and transfers					45,076,960	17,401	45,094,361
Change in net position					13,191,155	662,409	13,853,564
Net position--beginning of year					146,091,689	9,068,310	155,159,999
Net position--ending					\$ 159,282,844	\$ 9,730,719	\$ 169,013,563

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Balance Sheet

Governmental Funds

December 31, 2017

	General Fund	Street Fund	Street Capital Projects Fund
Assets			
Cash and cash equivalents	\$ 37,493,502	\$ 1,345,767	\$ 507
Taxes receivable	5,144,067	472,689	-
Accounts receivable, (net)	2,268,140	21,084	353,110
Interest receivable	35,383	792	-
Due from other funds	-	-	-
Grants receivable	5,709	1,335	1,466,309
Prepays	89,728	10,937	-
Total Assets	\$ 45,036,529	\$ 1,852,604	\$ 1,819,926
Liabilities			
Liabilities:			
Accounts payable	\$ 2,100,019	\$ 479,644	\$ 218,602
Accrued wages and benefits payable	445,637	78,702	19,715
Go bonds payable - current	-	-	-
Interest payable	-	-	-
Due to other funds	-	-	40,625
Deposits and other payables	229,665	-	-
Retainage payable	47,199	59,848	-
Unearned revenues	2,749,787	167,116	1,474,292
Total Liabilities	5,572,307	785,310	1,753,234
Fund Balances:			
Nonspendable:			
Prepaid expenses	\$ 89,728	\$ 10,937	\$ -
Restricted for:			
Comcast PEG contributions	-	-	-
Health Reimbursement Account	29,651	4,134	-
Parks & recreation programs	3,074	-	-
Law enforcement JAG & ARRA grants	-	-	-
Railroad grade separation projects	-	-	-
Windstorm recovery 2015	5,709	1,335	-
Hotel/motel tourism facilities	-	-	-
Hotel/motel tourism promotion	-	-	-
Motor vehicle fuel tax roads & streets	-	1,050,888	-
New City Hall Bldg - 2016	-	-	-
Street capital improvements	-	-	66,692
Trails & paths	-	-	-
Capital projects REET 1&2 roads & streets	-	-	-
Committed to:			
Winter weather operations	-	-	-
Assigned to:			
Civic bldg capital replacement	-	-	-
Civic facilities capital replacement	-	-	-
Parks & recreation capital improvements	-	-	-
Street capital improvements p&m	-	-	-
Railroad grade separation projects	-	-	-
Solid waste services	-	-	-
Unassigned	39,336,060	-	-
Total Fund Balances	39,464,222	1,067,294	66,692
Total Liabilities and Fund Balances	\$ 45,036,529	\$ 1,852,604	\$ 1,819,926

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Balance Sheet

Governmental Funds

December 31, 2017

	City Hall Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 615,584	\$ 16,128,865	\$ 55,584,225
Taxes receivable	-	445,613	6,062,369
Accounts receivable, (net)	-	17,092	2,659,426
Interest receivable	597	17,730	54,502
Due from other funds	-	1,804,937	1,804,937
Grants receivable	-	439,062	1,912,415
Prepays	-	-	100,665
Total Assets	\$ 616,181	\$ 18,853,299	\$ 68,178,539
Liabilities			
Liabilities:			
Accounts payable	\$ 12,381	\$ 231,992	\$ 3,042,638
Accrued wages and benefits payable	-	8,494	552,548
Go bonds payable - current	-	-	-
Interest payable	-	-	-
Due to other funds	-	1,490,310	1,530,935
Deposits and other payables	-	-	229,665
Retainage payable	502,724	37,667	647,438
Unearned revenues	-	372,534	4,763,729
Total Liabilities	515,105	2,140,997	10,766,953
Fund Balances:			
Nonspendable:			
Prepaid expenses	\$ -	\$ -	\$ 100,665
Restricted for:			
Comcast PEG contributions	-	54,837	54,837
Health Reimbursement Account	-	-	33,785
Parks & recreation programs	-	86,934	90,008
Law enforcement JAG & ARRA grants	-	-	-
Railroad grade separation projects	-	88,995	88,995
Windstorm recovery 2015	-	3,166	10,210
Hotel/motel tourism facilities	-	1,228,595	1,228,595
Hotel/motel tourism promotion	-	221,867	221,867
Motor vehicle fuel tax roads & streets	-	-	1,050,888
New City Hall Bldg - 2016	101,076	-	101,076
Street capital improvements	-	259,967	326,659
Trails & paths	-	46,324	46,324
Capital projects REET 1&2 roads & streets	-	5,133,798	5,133,798
Committed to:			
Winter weather operations	-	4,551	4,551
Assigned to:			
Civic bldg capital replacement	-	843,688	843,688
Capital reserve improvements (city wide)	-	4,427,286	4,427,286
Parks & recreation capital improvements	-	39,268	39,268
Street capital improvements p&m	-	3,102,536	3,102,536
Railroad grade separation projects	-	979,808	979,808
Solid waste services	-	190,682	190,682
Unassigned	-	-	39,336,060
Total Fund Balances	101,076	16,712,302	57,411,586
Total Liabilities and Fund Balances	\$ 616,181	\$ 18,853,299	\$ 68,178,539

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

City of Spokane Valley, Washington
*Reconciliation of the Balance sheet of Governmental Funds
To the Statement of Net Position
December 31, 2017*

Total governmental fund balances:		57,411,586
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources. This amount reflects the initial investment in capital assets and are not reported in the funds.		115,054,754
Certain earned tax revenues will be collected after year end and will not be available until after year end to pay for current expenditures; and therefore reported as unearned revenues in the funds.		
These revenues consist of:		
Sales and use taxes	2,357,136	
Motor fuel taxes	162,360	
Real estate excise taxes	56,500	
Hotel/Motel taxes	47,441	
Total	<u>2,623,437</u>	2,623,437
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unearned in the funds:		
Property taxes	319,531	
Intergovernmental	1,747,629	
Charges for services	73,133	
Total	<u>2,140,293</u>	2,140,293
Internal service funds are used by management to charge the cost of certain activities, such as equipment rental and self insurance, to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		1,340,544
Long-term liabilities, including capital leases payable, accrued interest payable, deferred inflows and outflows, and GASB68 net pension liabilities (NPL) are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	(12,790,000)	
Interest payable	(38,117)	
Net pension liabilities	(4,715,034)	
Deferred inflows of resources	(787,725)	
Deferred outflows of resources	687,918	
Premium on bond issuance	(1,139,587)	
Compensated Absences	(505,225)	
Total	<u>(19,287,770)</u>	(19,287,770)
Total Net position of Governmental Activities as shown on the Statement of Net Position:		<u>159,282,844</u>

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General Fund	Street Fund	Street Capital Projects Fund
Revenues			
Taxes	\$ 35,838,314	\$ 1,982,391	\$ -
Licenses and permits	2,971,586	-	-
Intergovernmental	2,556,393	2,132,509	3,562,133
Charges for services	1,298,258	136,112	-
Fines and forfeitures	427,624	-	-
Investment interest	326,401	7,843	-
Miscellaneous	666,089	134,486	62,243
Total Revenues	44,084,665	4,393,341	3,624,376
Expenditures			
Current:			
General government	4,865,817	-	-
Public safety	21,465,496	-	-
Utilities and physical environment	1,942,031	283,514	1,169,638
Transportation	-	4,204,293	-
Economic environment	773,252	-	-
Community development	1,354,999	-	-
Culture and recreation	2,743,228	-	-
Debt Service:			
Principal retirement	-	-	-
Interest expense	600	-	-
Bond issuance costs	-	-	-
Capital Outlay:			
Capital expenditures	658,141	49,702	72,160
Construction in progress	-	-	4,905,769
Total Expenditures	33,803,564	4,537,509	6,147,567
Excess of Revenues Over (Under) Expenditures	10,281,101	(144,168)	(2,523,191)
Other Financing Sources (Uses)			
Transfers In	684,803	-	2,514,317
Transfers (out)	(6,359,079)	(107,042)	-
Bonds issued, par value	-	-	-
Bonds issued, premium	-	-	-
Total Other Financing Sources (Uses)	(5,674,276)	(107,042)	2,514,317
Net Change in Fund Balances (deficit)	4,606,825	(251,210)	(8,874)
Fund Balances Beginning of Year	34,857,397	1,318,504	75,566
Fund Balances End of Year	\$ 39,464,222	\$ 1,067,294	\$ 66,692

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	City Hall Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ -	\$ 4,024,062	\$ 41,844,767
Licenses and permits	-	76,471	3,048,057
Intergovernmental	-	2,285,246	10,536,281
Charges for services	-	172,550	1,606,920
Fines and forfeitures	-	-	427,624
Investment interest	18,894	150,709	503,847
Miscellaneous	-	-	862,818
Total Revenues	18,894	6,709,038	58,830,314
Expenditures			
Current:			
General government	24,890	-	4,890,707
Public safety	-	-	21,465,496
Utilities and physical environment	-	81,289	3,476,472
Transportation	-	500,000	4,704,293
Economic environment	-	351,674	1,124,926
Community development	-	-	1,354,999
Culture and recreation	-	-	2,743,228
Debt Service:			
Principal retirement	-	470,000	470,000
Interest expense	-	470,000	470,600
Bond issuance costs	-	-	-
Capital Outlay:			
Capital expenditures	6,040,989	438,824	7,259,816
Construction in progress	-	4,806,255	9,712,024
Total Expenditures	6,065,879	7,118,042	57,672,561
Excess of Revenues Over (Under) Expenditures	(6,046,985)	(409,004)	1,157,753
Other Financing Sources (Uses)			
Transfers In	-	8,641,224	11,840,344
Transfers (out)	-	(5,670,423)	(12,136,544)
Bonds issued, par value	-	-	-
Bonds issued, premium	-	-	-
Total Other Financing Sources (Uses)	-	2,970,801	(296,200)
Net Change in Fund Balances (deficit)	(6,046,985)	2,561,797	861,553
Fund Balances Beginning of Year	6,148,061	14,150,505	56,550,033
Fund Balances End of Year	\$ 101,076	\$ 16,712,302	\$ 57,411,586

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

City of Spokane Valley, Washington
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017*

Net change in fund balances - total governmental funds: 861,553

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays and contributions exceeded depreciation in the current period:

Depreciation	(6,623,649)	
Capital outlay	16,856,952	10,233,303

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

Sales and use taxes	104,174	
Property taxes	(11,153)	
Excise taxes	68,205	
Other taxes	2,492	
Miscellaneous	(124,279)	
Capital-operating grants and contributions	1,370,492	1,409,931

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

470,000

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

Compensated absences	12,979	
Pension expense (GASB 68 adjustments)	183,626	
Amortization expense on LTGO Bonds	(61,475)	
Interest expense accrual	(38,117)	97,013

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

119,355

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

13,191,155

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Statement of Net Position - Proprietary Funds

December 31, 2017

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	StormWater Management Fund	Aquifer Protection Area Fund	Total Proprietary Funds	
Assets				
Current Assets:				
Cash and cash equivalents	\$ 2,451,040	\$ 1,411,685	\$ 3,862,725	\$ 1,275,260
Taxes delinquent-receivable	54,028	-	54,028	-
Accounts receivable, (net)	-	-	-	-
Interest receivable	2,416	1,388	3,804	1,355
Grants receivable	290,077	-	290,077	-
Prepays	1,200	-	1,200	345,036
Total Current Assets	2,798,761	1,413,073	4,211,834	1,621,651
Capital Assets:				
Buildings & structures	382,881	-	382,881	-
Machinery and equipment	219,613	-	219,613	547,212
Infrastructure	4,084,443	3,456,612	7,541,055	-
Construction in progress	91,063	-	91,063	-
Less accumulated depreciation	(1,344,559)	(545,831)	(1,890,390)	(97,245)
Total capital assets	3,433,441	2,910,781	6,344,222	449,967
(net of accumulated depreciation)				
Total Assets	\$ 6,232,202	\$ 4,323,854	\$ 10,556,056	\$ 2,071,618
Deferred Outflows of Resources				
Deferred amounts related to pensions	39,984	-	39,984	-
Total Deferred Outflows of Resources	\$ 39,984	\$ -	\$ 39,984	\$ -
Liabilities				
Current Liabilities:				
Accounts payable	\$ 75,344	\$ -	\$ 75,344	\$ 7,105
Accrued payroll and benefits payable	35,517	-	35,517	-
Due to other funds	-	-	-	274,002
Deposits and other payables	32,100	-	32,100	-
Retainage payables	48,596	-	48,596	-
Unearned revenue	327,792	-	327,792	-
Total Current Liabilities	519,349	-	519,349	281,107
Long-term Liabilities:				
Compensated absences	24,857	-	24,857	-
Net pension plan liabilities	275,227	-	275,227	-
Total Long-term Liabilities	300,084	-	300,084	-
Total Liabilities	819,433	-	819,433	281,107
Deferred Inflows of Resources				
Deferred amounts related to pensions	45,888	-	45,888	-
Total Deferred Inflows of Resources	45,888	-	45,888	-
Net Position				
Investments in capital assets	3,433,441	2,910,781	6,344,222	449,967
Restricted	-	-	-	-
Unrestricted	1,973,424	1,413,073	3,386,497	1,340,544
Total Net Position	\$ 5,406,865	\$ 4,323,854	\$ 9,730,719	\$ 1,790,511

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Year Ended December 31, 2017

	Business-type Activities Enterprise Funds			Governmental
	StormWater Management Fund	Aquifer Protection Area Fund	Total Proprietary Funds	Activities Internal Service Funds
Operating Revenues				
Charges for services	\$ 1,895,033	\$ -	\$ 1,895,033	\$ 146,429
Intergovernmental revenues	331,822	452,110	783,932	-
Total Operating Revenues	2,226,855	452,110	2,678,965	146,429
Operating Expenses				
Personal services	495,785	-	495,785	29,067
Professional services	285,108	-	285,108	311,467
Materials and supplies	18,423	-	18,423	6,898
Other services and expenses	929,128	-	929,128	-
Depreciation and amortization	231,764	170,856	402,620	44,249
Total Operating Expenses	1,960,208	170,856	2,131,064	391,681
Operating Income (loss)	266,647	281,254	547,901	(245,252)
Non-Operating Revenues (Expenses)				
Intergovernmental revenues	-	-	-	-
Interest and investment income	20,564	10,237	30,801	10,758
Miscellaneous revenues	-	-	-	-
Other services & expenses	-	-	-	-
Total Non-Operating Revenues (Expenses)	20,564	10,237	30,801	10,758
Income (loss) before Capital Contributions and Transfers	287,211	291,491	578,702	(234,494)
Contributions and Transfers				
Capital contributions	38,385	58,722	97,107	-
Transfers in	-	-	-	386,600
Transfers (out)	(13,400)	-	(13,400)	(77,000)
Change in Net Position	312,196	350,213	662,409	75,106
Net Position-Beginning of Year, January 1	5,094,669	3,973,641	9,068,310	1,715,405
Net Position-End of Year, December 31	\$ 5,406,865	\$ 4,323,854	\$ 9,730,719	\$ 1,790,511

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

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	StormWater Management Fund	Aquifer Protection Area Fund	Total Proprietary Funds	
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,895,114	\$ -	\$ 1,895,114	\$ -
Cash paid to employees	(487,326)	(83)	(487,409)	(29,067)
Cash payments to suppliers for goods and services	(1,202,828)	-	(1,202,828)	(658,365)
Other cash receipts	431,104	452,110	883,214	-
Receipts from interfund activity	-	-	-	146,429
Other cash payments	(77,367)	(1,904)	(79,271)	-
Net cash (used for) provided by operating activities	558,697	450,123	1,008,820	(541,003)
Cash Flows from Noncapital Financing Activities				
Non-Capital grant/project receipts	-	-	-	-
Customer supplies/project expense reimbursements	-	-	-	-
Operating subsidies & transfers in (out) other funds	(13,400)	-	(13,400)	583,603
Net cash (used for) noncapital financing activities	(13,400)	-	(13,400)	583,603
Cash Flows from Capital and Related Financing Activities				
Acquisition, construction & (transfers) of capital assets	(331,953)	(58,721)	(390,674)	(149,451)
Intergovernmental revenues/materials & supplies (net)	38,385	58,721	97,106	-
Net cash provided by (used for) capital and related financing activities	(293,568)	-	(293,568)	(149,451)
Cash Flows from Investing Activities				
Interest received	19,105	9,261	28,366	9,981
Net cash provided by investing activities	19,105	9,261	28,366	9,981
Net increase (decrease) in Cash and Cash Equivalents	270,834	459,384	730,218	(96,870)
Cash and Cash Equivalents - January 1, 2017	2,180,206	952,301	3,132,507	1,372,130
Cash and Cash Equivalents - December 31, 2017	\$ 2,451,040	\$ 1,411,685	\$ 3,862,725	\$ 1,275,260
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (loss)	\$ 266,647	\$ 281,254	\$ 547,901	\$ (245,252)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	231,764	170,856	402,620	44,249
(Increase) Decrease in Assets:				
(Increase) Decrease: Customer Receivables (net)	82	-	82	-
(Increase) Decrease: in Operating Grants Receivables	85,998	-	85,998	-
(Increase) Decrease: in prepaid expenses	(1,126)	-	(1,126)	(345,036)
(Increase) Decrease in deferred outflows related to pensions	14,410	-	14,410	-
Increase (Decrease) in Liabilities:				
Increase (Decrease): Accounts payable to suppliers	29,830	-	29,830	5,036
Increase (Decrease): Payroll and benefits payable	10,004	(83)	9,921	-
Increase (Decrease): Other Accounts Payables	2,075	(1,904)	171	-
Increase (Decrease): Unearned Operating Revenue	(79,442)	-	(79,442)	-
Increase (Decrease): Compensated Absences	(1,545)	-	(1,545)	-
Total adjustments	292,050	168,869	460,919	(295,751)
Net Cash Provided by (Used for) by Operating Activities	\$ 558,697	\$ 450,123	\$ 1,008,820	\$ (541,003)

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

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of government-wide financial statements

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

B. Reporting entity

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

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

C. Basis of presentation - government-wide and fund financial statements

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

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

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

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

Notes to Financial Statements

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

D. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

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

The city reports the following *major governmental funds*:

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

The Street Fund: This Special revenue fund is responsible for the street operating and maintenance service levels of all Spokane Valley city streets and bridges. It utilizes the receipts received from the motor vehicle fuel tax (MVFT) distributed to the City in accordance with the State Revised Codes of Washington (RCW) 82.36.020 and receipts from the City Telephone Tax implemented in 2009. Most of the service levels to the city streets during 2017 are the same or greater than provided for compared to 2016.

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

City Hall Construction Fund: accounts for the accumulation of resources used to finance the construction of the new City Hall Building. Revenues include LTGO Bond issue proceeds.

Notes to Financial Statements

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

The city reports the following *major proprietary funds*:

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

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

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

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

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

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

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

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

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

E. Budgetary information

1. Budgetary basis of accounting

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

Notes to Financial Statements

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

2. Procedures for adopting the original budget

The City's budget procedures are mandated by the Revised Code of Washington 35A.33. The following are key procedural steps in the City's budget development process. Note that the process and dates are for the 2017 budget process and may be changed for future processes:

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

3. Amending the budget

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

The City's budget was amended twice during fiscal year 2017. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes. Annual appropriations for all funds lapse at the end of the fiscal period even if they have related encumbrances. Unexpended resources must be re-appropriated and become part of the subsequent period's budget pursuant to Washington States regulations.

F. Assets, liabilities, unearned revenues, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

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

Notes to Financial Statements

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

2. Investments

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

Investments for the City of Spokane Valley are reported at amortized cost at December 31, 2017. The fair value of the LGIP portfolio is calculated by a master custodian or by an independent pricing service under contract with the State Treasurer's Office. The reported amortized value of the City's pool position in the State of Washington's LGIP is the same as the fair value of the pool shares (refer to note 3).

3. Receivables

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

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

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

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

5. Prepaid items

The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when it was purchased.

6. Capital assets

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

Notes to Financial Statements

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of proprietary/business-type activities is included as part of the capitalized value of the assets constructed and the amount of interest capitalized depends on the specific circumstances (refer to note 5). There were no interest expenses incurred during 2017 that were included as part of the cost of capital assets under construction.

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

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

7. Deferred outflows/inflows of resources

The City of Spokane Valley currently has three sources that qualify for reporting as a deferred outflow/inflow of resources for fiscal year 2017 under this standard. These sources consist of traffic mitigation fees, Washington State Office of Public Defense grant funds received in advance, and proportionate share in net pension obligations as per GASB 68. At December 31, 2017, the City of Spokane Valley reported deferred outflows of \$727,902 for pension plans and deferred inflows of \$833,613 for the same plans for its proportionate share of the net pension liabilities.

8. Compensated absences

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

9. Other Accrued Liabilities

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

10. Long-Term Debt

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

11. Unearned Revenues

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

12. Net position flow assumption

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

Notes to Financial Statements

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

13. Fund balance flow assumptions

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

14. Fund balance policies

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

15. Pensions

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

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

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

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

The governmental fund balance includes reconciliations between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, net pension liabilities, deferred outflows and inflows, and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.” The details of the (\$19,287,770) difference are as follows:

Bonds payable	\$ (12,790,000)
Interest payable	(38,117)
Net pension liabilities	(4,715,034)
Deferred inflows of resources	(787,725)
Deferred outflows of resources	687,918
Premium on bond issuance	(1,139,587)
Compensated absences	<u>(505,225)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$(19,287,770)</u></u>

Another element of that reconciliation explains the “Internal service funds are used by management to charge the cost of certain activities, such as health insurance costs to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.” The details of the \$1,340,544 difference are as follow:

Net position of the internal service fund	\$ 1,790,511
Less: Governmental type Internal Service Capital Assets	<u>(449,967)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position governmental activities</i>	<u><u>\$ 1,340,544</u></u>

Notes to Financial Statements

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

Also, another element of the reconciliation explains that capital assets used in governmental activities are not financial resources and the balance reflects the initial investment in capital assets and therefore “governmental funds do not report capital assets.” The details of the \$115,054,754 difference are as follows:

Land	\$ 9,219,847
Construction in Progress	3,444,882
Total non-depreciable capital assets	<u>12,664,729</u>
Depreciable capital assets	\$ 361,527,156
Less: Accumulated depreciation-depreciable assets	<u>(259,137,131)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>102,390,025</u>
Net adjustment to increase fund balance - total governmental funds to arrive at <i>net position</i> - governmental activities	<u>\$115,054,754</u>

Certain earned tax revenues were collected and other long-term assets will not be available until after the year end to pay for current expenditures, and therefore represent an acquisition of net position that applies to future period(s) and will not be recognized as an *inflow of resources (revenue)* until that time, and accordingly these items will be reported as *unearned revenues* in the governmental fund balance sheet. The details of the \$4,763,730 reconciled difference presented as follows:

Unearned revenue-property tax	\$ 319,531
Unearned revenue-sales & use, motor fuel, hotel/motel, & REET taxes	2,623,437
Unearned revenue-Intergovernmental & Charges for services	<u>1,820,762</u>
Net adjustment to increase fund balance - total governmental funds to arrive at <i>net position</i> governmental activities	<u>\$ 4,763,730</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes this reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expenses in the current period.” The details of this \$10,233,303 difference are as follows:

Capital outlay	\$ 16,856,952
Depreciation expense	<u>(6,623,649)</u>
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in <i>net position of</i> governmental activities	<u>\$ 10,233,303</u>

Notes to Financial Statements

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

Another element of the reconciliation states that “some long-term revenues in the statement of activities that do not provide current financial resources to governmental funds are not reported as revenues in the funds.” The details of this \$1,409,931 difference are as follows:

Unearned revenue-property taxes	\$ (11,153)
Unearned revenue-sales & use taxes	104,174
Unearned revenue-excise taxes	68,205
Unearned revenue-other taxes	2,492
Unearned revenue-charges for services	(124,279)
Unearned revenue-capital grants & contributions	<u>1,370,492</u>

Net adjustment to **increase** *net changes in fund balances- total governmental funds* to arrive at *changes in net position of governmental activities*

\$ 1,409,931

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds”. The details of this \$97,013 difference are as follows:

Compensated absences	\$ 12,979
Pension expense (GASB 68)	183,626
Amortization expense on LTGO Bonds	(61,475)
Accrued interest on LTGO Bonds	<u>(38,117)</u>

Net adjustment to **increase** *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*

\$ 97,013

Another element of the reconciliation states the “internal service funds are used by management to charge the cost of certain activities, such as self-insurance and equipment rental and replacement, to individual funds.” The details of this \$119,355 difference are as follows:

Revenues:

Interest and investment income & charges for services	\$ 157,187
Total Revenues	<u>157,187</u>

(Less) expenses not including depreciation and net transfers: (37,832)

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities

\$ 119,355

Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS:

As of December 31, 2017, the City of Spokane Valley had the following investments at amortized cost:

Investment Type <i>(amounts are in thousands)</i>	Maturities		
Commercial paper	0.65	\$	5,035
Local Government Investment Pool State of Washington	0.45		49,255
Total fair value of investments:			
Portfolio weighted average maturity	0.47	\$	54,290

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

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

As of December 31, 2017, the City of Spokane Valley's investment in the State Treasurer's investment pool was rated Aa3 by Moody's. The City of Spokane Valley's investments in commercial paper was rated A1 by Standard & Poor's.

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

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

The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington and provides an additional level of security for The City of Spokane Valley's deposits. As of December 31, 2017, the City of Spokane Valley's total bank balance of \$7,003,621 was insured and covered by the FDIC and the Washington State PDPC, pool and therefore was not exposed to any custodial credit risk-deposits. These banks deposits were in a State authorized public depository and were within the State limit of the depositories (bank's) net worth per RCW 39.58.010 and RCW 39.58.135.

Custodial credit risk-investments: Investments in the State's LGIP are shown on the entity-wide Statement of Net Position at amortized cost and comparable to a Rule 2a-7 money market fund regulated by The Securities and Exchange Commission (SEC, 17CFR.270.2a-7). The City's investments can be categorized to give an indication of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent, but not in the City's name. The City had no Category 1, 2, or 3 type investments in their investment portfolio as of December 31, 2017.

Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS continued:

The LGIP has an operations manual to describe operating policies and procedures for investing in the State pool. The minimum transaction size is \$5,000 for deposits and withdrawals. A notification to LGIP should be made at least a day prior to a large deposit/withdrawal of Ten million or more. The State Treasurer will require reimbursement for the administration and recovery of costs associated with the operation of the LGIP. The administrative fee accrues daily from pool participants' earnings prior to the earnings being posted to their account. The administrative fee will be paid monthly. In the event that there are no earnings, the administrative fee will be deducted from principal.

NOTE 4 – PROPERTY TAXES:

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

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

Property taxes levied for the current year are recorded as a receivable when levied and offset by unearned revenue. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the applicable period. During the year, property tax revenues are recognized when cash is collected. At year end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January.

No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. For 2017, the City's regular levy was \$11,646,122 based on the 2016 assessed value of \$8,124,487,663.

The tax rate for general City operations is limited by State law (RCW 84.52.043) to \$3.60 per \$1,000 of assessed valuation, deducting from there the levy of \$1.78 by the Spokane County Fire Districts #1 and #8, and \$.45 for Library Districts, which leaves the City with the authority to levy \$1.37 for its own purposes. This amount may be reduced for any of the following reasons:

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

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION:

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

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

Governmental-type Capital asset activity for the year ended December 31, 2017, is summarized as follows:

	Beginning			Ending Balance
Governmental-type activities	Balance 1/1/2017	Additions	Reductions	Dec. 31, 2017
Land (non-depreciable)	\$ 8,322,766	\$ 897,081	\$ -	\$ 9,219,847
Construction in progress (CIP)	14,163,091	2,426,147	(13,144,356)	3,444,882
Total non-depreciable assets	22,485,857	3,323,228	(13,144,356)	12,664,729
Buildings	12,883,856	12,493,370	-	25,377,226
Leasehold improvements	611,754	131,017	-	742,771
Improvements other than buildings	12,373,856	359,070	-	12,732,926
Infrastructure	305,363,427	12,510,888	(61,552)	317,812,763
Machinery and equipment	3,765,634	1,509,626	(264,339)	5,010,921
Total depreciable assets	334,998,527	27,003,971	(325,891)	361,676,607
Total capital assets	\$ 357,484,384	\$ 30,327,199	\$ (13,470,247)	\$ 374,341,336

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION *continued*:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017
<i>Less accumulated depreciation for:</i>				
Buildings	\$ 4,107,248	\$ 342,709	\$ -	\$ 4,449,957
Leasehold improvements	141,109	45,089	-	186,198
Improvements other than buildings	6,030,309	715,882	-	6,746,191
Infrastructure	239,529,776	5,579,813	(4,443)	245,105,146
Machinery and equipment	2,854,491	208,938	(264,339)	2,799,090
Total accumulated depreciation	\$ 252,662,933	\$ 6,892,431	\$ (268,782)	\$ 259,286,582
Capital assets, net of accumulated depreciation	\$ 104,821,451	\$ 23,434,768	\$ (13,201,465)	\$ 115,054,754

Business-type Capital asset activity for the year ended December 31, 2017, is summarized as follows:

Business-type activities;	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Construction in progress	\$ 83,158	\$ 7,905	\$ -	\$ 91,063
Total non-depreciable	83,158	7,905	-	91,063
Buildings and structures	382,881	-	-	382,881
Infrastructure	7,158,286	382,769	-	7,541,055
Machinery and equipment	219,613	-	-	219,613
Total depreciable	7,760,780	382,769	-	8,143,549
Total capital assets	\$ 7,843,938	\$ 390,674	\$ -	\$ 8,234,612
(Less) accumulated depreciation for:				
Buildings and structures	\$ 72,807	\$ 12,787	\$ -	\$ 85,594
Infrastructure	1,222,530	384,579	-	1,607,109
Machinery and equipment	192,433	5,254	-	197,687
Total accumulated depreciation	1,487,770	402,620	-	1,890,390
Capital assets, net of accumulated depreciation	\$ 6,356,168	\$ (11,946)	\$ -	\$ 6,344,222

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION *continued*:

Depreciation expense was charged to current functions of the primary government for 2017 as follows (includes Internal Service Funds Governmental type):

Governmental Activities:

General Government	\$ 129,217
Public Safety	112,294
Physical Utilities & Environmnt	1,023,835
Transportation	4,655,771
Economic Environment	9,459
Culture & Recreation	961,855

Total governmental activities current year depreciation expense \$ 6,892,431

Business-type activity:

StormWater	\$ 231,764
Aquifer Protection Area	170,856

Total business-type activities current year depreciation expense \$ 402,620

Construction commitments

The City of Spokane Valley was involved in many construction projects as of December 31, 2017. The projects include various street and park construction projects as well as construction of a new City Hall building with a total of \$20,024,769 of contracts in place. At year end the City's commitments with contractors are as follows:

Construction Commitments	Original Commitment	Spent to Date	Remaining Commitment at 12/31/17
Euclid Avenue Reconstruction Project	\$ 2,731,198	\$ 2,423,889	\$ 307,309
City Hall	10,948,854	10,875,245	73,609
Argonne Resurfacing: Broadway to Indiana	26,900	18,300	8,600
8th Avenue Sidewalk - Dicky to Thierman	7,300	7,125	175
Mission Ave - Flora to barker	183,445	165,254	18,191
Barker Road/BNSF Grade Separation	212,991	135,232	77,759
Bowdish Road 7th to 12th Ave Sidewalk	440,782	418,659	22,123
City-Wide Reflective Signal Backplates	1,741	-	1,741
City-Wide Signal Backplates	60,692	-	60,692
Mission Ave - McDonald to Evergreen	9,000	-	9,000
Pines Rd. underpass @ BNSF & Trent	150,887	102,547	48,340
Appleway Resurfacing, Park to Dishman	916,555	902,814	13,741
Appleway Trail, Pines to Evergreen	1,714,022	1,683,415	30,607
North Sullivan ITS Project	122,320	70,982	51,338
Saltese Road Preservation	871,551	841,473	30,078
Sprague Street Preservation - Sullivan to Corbin	73,760	48,445	25,315
Sullivan & Euclid PCC Intersection	1,444,701	1,420,160	24,541
Sullivan & Wellesley Intersection Improvement	60,120	11,243	48,877
8th & Carnahan Intersection Improvements	47,950	36,193	11,757
Total Construction Commitments	<u><u>\$ 20,024,769</u></u>	<u><u>\$ 19,160,976</u></u>	<u><u>\$ 863,793</u></u>

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION *continued:*

The various street, bridge, and parks construction projects are being funded by state and local grants, as well as, existing resources in various City Funds. The new City Hall is being funded by a combination of LTGO bond proceeds and existing city resources.

NOTE 6 – 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:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (4,990,261)
Pension assets	\$ -
Deferred outflows of resources	\$ 727,902
Deferred inflows of resources	\$ (833,613)
Pension expense/expenditures	\$ 498,196

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Alternatively, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov

Public Employees' Retirement System (PERS)

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

PERS Plan 1

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

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued*:

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:

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

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

The City of Spokane Valley actual contributions to the plan were \$300,891 for the year ended December 31, 2017. The City did not have any current employees participating in PERS Plan 1 during 2017. These contributions represent amounts allocated to PERS Plan 1 by DRS for the Unfunded Actuarial Accrued Liability (UAAL) to support payments for prior employees under this plan.

PERS Plan 2/3

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued*:

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

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2 *
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
Total	11.18%	6.12%
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
Total	12.70%	7.38%

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

The City of Spokane Valley actual contributions to the plan were \$420,895 for the year ended December 31, 2017.

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% 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%

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued:*

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.

Change in Assumptions and Methods

- 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 expected remaining service lives calculation was revised.

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 7.70 percent except LEOFF Plan 2, which has assumed 7.50 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. Contribution 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. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued*:

Sensitivity of Net Pension Liability

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 3,130,556	\$ 2,569,839	\$ 2,084,139
PERS 2/3	\$ 6,520,869	\$ 2,420,422	\$ (939,287)

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.

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

At June 30, 2017, the City of Spokane Valley reported a total pension liability of \$4,990,261 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 2,569,839
PERS 2/3	\$ 2,420,422

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

	Proportionate Share 6/30/2016	Proportionate Share 6/30/2017	Change in Proportion
PERS 1	0.053037%	0.054158%	0.001121%
PERS 2/3	0.067862%	0.069662%	0.001800%

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.

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 of Spokane Valley recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 189,710
PERS 2/3	\$ 308,486

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued*:

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ -	\$ -
Net difference between projected & actual investment earnings on pension plan investments	\$ -	\$ (95,899)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions & proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 152,510	\$ -
Total	\$ 152,510	\$ (95,899)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 245,246	\$ (79,603)
Net difference between projected & actual investment earnings on pension plan investments	\$ -	\$ (645,226)
Changes of assumptions	\$ 25,709	\$ -
Changes in proportion and differences between contributions & proportionate share of contributions	\$ 77,340	\$ (12,885)
Contributions subsequent to the measurement date	\$ 227,097	\$ -
Total	\$ 575,392	\$ (737,714)

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

Notes to Financial Statements

NOTE 6 – PENSION PLANS *continued:*

Year ended December 31:	PERS 1	Year ended December 31:	PERS 2/3
2018	\$ (64,822)	2018	\$ (244,509)
2019	\$ 20,465	2019	\$ 76,493
2020	\$ (4,752)	2020	\$ (46,749)
2021	\$ (46,791)	2021	\$ (248,996)
2022	\$ -	2022	\$ 32,322
Thereafter	\$ -	Thereafter	\$ 42,019

NOTE 7 – RISK MANAGEMENT:

The City of Spokane Valley is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 161 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

Notes to Financial Statements

NOTE 7 – RISK MANAGEMENT *continued:*

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

NOTE 8 – INTERFUND BALANCES AND TRANSFERS:

Interfund Balances

Sometimes during the course of operations, and as a part of the City's regular programmatic activity, one fund will sell goods, have work performed or services provided to another fund in return for equal or almost equal value. As a result of such exchanges, an interfund services provided and used applies to any residual balances outstanding at year end and the City reports this type of activity as *due from/to other funds*. Due to other fund and due from other fund balances at December 31, 2017, were:

	Due from other funds	Due to other funds
General fund	\$ -	\$ -
Street fund	-	-
Street capital projects fund	-	40,625
City hall construction fund	-	-
Nonmajor governmental funds	1,804,937	1,490,310
Total governmental funds	<u>\$ 1,804,937</u>	<u>\$ 1,530,935</u>
Stormwater management fund	\$ -	\$ -
Aquifer protection area fund	-	-
Internal service funds	-	274,002
Total business type & internal service	<u>\$ -</u>	<u>\$ 274,002</u>
Total government - wide	<u><u>\$ 1,804,937</u></u>	<u><u>\$ 1,804,937</u></u>

Interfund Transfers

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

Notes to Financial Statements

NOTE 8 – INTERFUND BALANCES AND TRANSFERS *continued:*

Interfund transfer activity for 2017 is as follows:

	Transfers - in	Transfers - (out)
General fund	\$ 684,803	\$ 6,359,079
Street fund	-	107,042
Tourism Facilities Hotel/Motel Tax fund	250,000	
Hotel/Motel fund	-	265,778
Solid Waste fund	-	40,425
Winter Weather Reserve fund	258,000	-
Debt service fund	556,201	-
Capital projects fund	-	1,146,404
Special capital projects fund	-	821,517
Street capital projects fund	2,514,317	-
Parks capital projects fund	437,437	-
Civic Buildings Capital Projects fund	-	498,500
Pavement Preservation fund	2,341,500	-
Capital Reserve fund	3,003,929	2,897,799
Railroad Grade Separation Projects fund	1,794,157	-
Stormwater management fund	-	13,400
Equipment Rental & Replacement fund	36,600	77,000
Internal Service Funds (Gov't type)	350,000	-
Total government - wide	\$ 12,226,944	\$ 12,226,944

The City made the following one-time transfer during the year ending December 31, 2017. This one-time or infrequent transfers are included in the table above:

- A \$1,200,000 transfer from the General Fund to Railroad Grade Separation Project Fund for the design on the Pines Grade Separation project.

NOTE 9 – LONG -TERM OBLIGATIONS AND LEASES:

Pension Obligations

The City's net pension liability for the year ended December 31, 2017, is \$4,990,261. Refer to note 6 for additional information and activity related to the City's pension plans.

General Obligation Bonds

The City of Spokane Valley issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental-type activities. These General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds are either created by 3/5th majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (i.e., councilmanic bonds). In 2003, the City issued \$9,430,000 of councilmanic bonds to finance construction of the CenterPlace Community Center and for various street construction projects. The City expects to receive intergovernmental payments from the Spokane Public Facilities District pursuant to an inter-local agreement, dated July 2003, for \$7 million of the bonds.

Notes to Financial Statements

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

In 2016 the City issued \$7,275,000 of general obligation bonds to partially finance the construction of a new City Hall building. As a result of favorable interest rate at the time of bond issuance, the bonds were issued at a premium of \$671,088.

Refunded Bonds

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

General obligation and refunding bonds are currently outstanding as December 31, 2017, as follows:

Name of Issuance	Purpose	Interest Rate	Maturity	Debt Outstanding
LTGO'14 Refunding Bonds	Governmental Activities	2.00% - 4.00%	12/1/2033	\$5,740,000
LTGO'16 Bonds	Governmental Activities	2.00% - 4.00%	12/1/2045	\$7,050,000

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

Governmental - Type Activities			
	Principal	Interest	Total Requirements
2018	520,000	457,400	977,400
2019	555,000	443,350	998,350
2020	595,000	426,700	1,021,700
2021	635,000	408,850	1,043,850
2022	675,000	389,800	1,064,800
2023-2027	3,305,000	1,553,950	4,858,950
2028-2032	2,215,000	1,013,250	3,228,250
2033-2037	1,515,000	653,350	2,168,350
2038-2042	1,645,000	354,150	1,999,150
2043-2045	1,130,000	68,550	1,198,550
Totals	\$ 12,790,000	\$ 5,769,350	\$ 18,559,350

Long-term debt on the Statement of Net Position is presented net of any premium/discount incurred at the time of issuance. The 2014 LTGO'14 Refunding Bonds and 2016 LTGO'16 general obligation bonds were sold at a premium of \$1,278,847 and were reported at the net amount of \$1,341,656 including the underwriters discount expense. The premium will be amortized over the life of the bonds and the outstanding liability balance as of December 31, 2017, is \$1,139,587.

Notes to Financial Statements

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

Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Balance			Balance	Amounts
Governmental-Type Activities	1/1/2017	Additions	Reductions	12/31/2017	Due within One Year
Bonds and notes payable:					
GO refunding LTGO'14 bonds	\$ 6,060,000	\$ -	\$ (320,000)	\$ 5,740,000	\$ 365,000
General obligation LTGO'16 bonds	7,200,000	-	(150,000)	7,050,000	155,000
Premium on LTGO'14 refunding bonds	552,344	-	(39,106)	513,238	39,106
Premium on LTGO'16 bonds	648,719	-	(22,370)	626,349	22,369
Other liabilities:					
Net pension plan liabilities	5,948,746	-	(1,233,712)	4,715,034	-
Compensated absences	492,246	12,979	-	505,225	12,631
Governmental activities long-term liabilities	\$20,902,055	\$ 12,979	\$ (1,765,188)	\$19,149,846	\$ 594,106
	Balance			Balance	Amounts
Business-Type Activities	1/1/2017	Additions	Reductions	12/31/2017	Due within One Year
Net pension plan liabilities	316,389		(41,162)	275,227	-
Compensated absences	26,402	-	(1,545)	24,857	621
Business-type activities long-term liabilities	\$ 342,791	\$ -	\$ (42,707)	\$ 300,084	\$ 621

Legal Debt Margin

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

The 2016 assessed valuation of the City for the Levy year of 2017, for purposes of determining the legal debt margin is \$8,124,487,663. Under State of Washington statutes general obligation indebtedness pursuant to a vote of the electorate is limited to 2.5% of actual value of taxable property located within the City. Indebtedness without a vote of the people is limited to 1.5% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2.5% of total valuation. There is a 2.5% limitation each for utility purposes and open space and park facilities purposes. The remaining voted and non-voted GO debt capacities for General purposes of the City at December 31, 2017, are as follows:

	Amount
General Purposes Voted and Non-voted Debt - 2.5%	\$ 189,816,967
Utility Voted Debt - 2.5%	203,112,192
Open Space and Park Facilities Voted Debt - 2.5%	203,112,192
Total Remaining Debt Capacity	\$596,041,351

Notes to Financial Statements

NOTE 9 – LONG -TERM OBLIGATIONS AND LEASES continued:

Leases

The City of Spokane Valley leases buildings and other equipment under noncancelable operating lease agreements. Operating leases do not give rise to property rights or lease debt obligations, and therefore the results of these agreements are not reflected in the General Long-term Obligations of government activities. Total costs for such leases were \$118,564 for the fiscal year ending December 31, 2017. The future minimum lease payments for these leases are presented as follows:

<u>Year Ending Dec. 31</u>	<u>Amount</u>
2018	50,084
2019	43,107
2020	16,851
2021	4,261
2022	4,261
Total minimum future lease payments	<u>\$ 118,564</u>

The City's lease for the old city hall space terminated at the end of the 36th month, or March 2017. The City negotiated a lease extension through Sept. 30, 2017 in the amount of \$36,222 per month for the months of January through March 2017 and \$54,334 per month for the months of April through September 2017. The City moved into a new City Hall building during September 2017.

NOTE 10 – CONTINGENCIES AND LITIGATION:

In the normal course of governmental operations the City has claims filed against it for various losses related to tort actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. At any given point in time, there is a recurring volume of tort and other claims for compensation and damages against the City, which could impact expenditures. The City's Risk Management fund provides for these claims, and insurance is available to pay a portion of damages for certain types of claims. The collective impact of these claims is not likely to have a material impact on the City's financial position.

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

The City was recently named as a defendant in a law suit by the parents of one or more minor children relating to a motor vehicle accident on East Cataldo near the intersection of Barker Road and I-90. Plaintiffs allege errors to the road design and/or signage. One minor was seriously injured, although none of the injuries were life-threatening, and he appears to have recovered. It is early in the litigation, and it is unclear what the claimed damages will be, or a projected timeframe for resolution of the issues.

In September 2012, the City entered into an interlocal agreement with the Spokane County Library District (Library) for the purpose of acquiring an 8.4 acre parcel of land that would in the future be developed as a joint City park and library. In October 2012, the City then purchased the 8.4 acre parcel of land at a cost of approximately \$2.5 million and the Library gave the City \$744,047 for its proportional share of the 2.5 acres allocated to their estimated needs. At that time the City recorded the entire \$2.5 million purchase as land owned by the City and the \$744,047 received from the Library as deferred revenue with the understanding that when a joint site development plan was complete the City would recognize the \$744,047 received from the Library as revenue, transfer title for this land to the Library, and remove \$744,047 of land from its capital assets.

Notes to Financial Statements

NOTE 10 – CONTINGENCIES AND LITIGATION *continued:*

In January 2014, it was determined that the Library required an additional 0.32 acres of land, bringing their share of the original 8.4 acre purchase up to 2.82 acres. The Library paid the City an additional \$95,238 for the proportional share of the .32 acres relative to the purchase price of the entire 8.4 acre purchase. This brought the Library's share of the land purchase up to a total of 2.82 acres at a cost of \$839,285. At that point the City declared this 2.82 acres surplus to its needs, transferred title for this land to the Spokane County Library District, recognized \$839,285 as revenue and removed the land from capital assets. The interlocal agreement also provided that if the Library had not within five years following the acquisition of the land (in October 2017), secured voter approval of a construction bond for the library building and ancillary improvements, that the land would be re-conveyed back to the City at the same price paid by the Library (\$839,285). An amendment was made to the interlocal agreement in October 2017 which extended the agreement through October 2022 with the option to extend through October 2024. Through this amendment, the City also agreed to contribute \$1.3 million, of which the \$839,285 would be part, in frontage and/or joint site improvements on the Library site.

NOTE 11 – RECEIVABLE AND PAYABLE BALANCES:

A) **Receivables:** Receivables at December 31, 2017, were as follows:

Governmental Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & Other receivables	Deferred outflows	Total receivables
General fund	\$ 2,303,523	\$ 5,144,067	\$ 5,709	\$ -	\$ 89,728	\$ -	7,543,027
Street fund	21,876	472,689	1,335	-	10,937	-	506,837
Street capital projects fund	353,110	-	1,466,309	-	-	-	1,819,419
City hall construction fund	597	-	-	-	-	-	597
Other governmental funds	34,822	445,613	439,062	1,804,937	-	-	2,724,434
<i>Reconciliation of balances in the fund financial statements to government-wide financial statements</i>	<i>1,356</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>345,036</i>	<i>687,918</i>	<i>1,034,310</i>
Total Governmental type activities	\$ 2,715,284	\$ 6,062,369	\$ 1,912,415	\$ 1,804,937	\$ 445,701	\$ 687,918	\$ 13,628,624
Business Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & Other receivables	Deferred outflows	Total receivables
Stormwater management fund	\$ 2,416	\$ 54,028	\$ 290,077	\$ -	1,200	39,984	\$ 387,705
Aquifer protection area fund	1,388	-	-	-	-	-	1,388
Total Business type activities	\$ 3,804	\$ 54,028	\$ 290,077	\$ -	\$ 1,200	\$ 39,984	\$ 389,093

Notes to Financial Statements

NOTE 11 – RECEIVABLE AND PAYABLE BALANCES *continued*:

B) Payables: Payables at December 31, 2017, were as follows:

Governmental Type Activities	Accounts payables	Salaries & benefits payable	Due to other funds	Deposits payables	Other liabilities	Unearned Revenues	Deferred inflows	Total Payables
General fund	\$ 2,100,019	\$ 445,637	\$ -	\$ 276,864	\$ -	\$ 2,749,787	\$ -	\$ 5,572,307
Street fund	479,644	78,702	-	59,848	-	167,116	-	785,310
Street capital projects fund	218,602	19,715	40,625	-	-	1,474,292	-	1,753,234
City hall construction fund	12,381	-	-	502,724	-	-	-	515,105
Other governmental funds	231,992	8,494	1,490,310	37,667	-	372,534	-	2,140,997

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

(3,338)	-	274,002	10,443	38,117	(4,763,730)	787,725	(3,656,781)
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**Total Governmental
type activities**

\$3,039,300	\$ 552,548	\$ 1,804,937	\$ 887,546	\$ 38,117	\$ 0	\$ 787,725	\$ 7,110,173
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Business Type Activities	Accounts payables	Salaries & benefits payable	Due to other funds	Deposits payables	Other liabilities	Unearned Revenues	Deferred inflows	Total
Stormwater management fund	\$ 75,344	\$ 35,517	\$ -	\$ 80,696	\$ -	\$ 327,972	\$ 45,888	\$ 565,417
Aquifer protection area fund	-	-	-	-	-	-	-	-
Total Business type activities	\$ 75,344	\$ 35,517	\$ -	\$ 80,696	\$ -	\$ 327,972	\$ 45,888	\$ 565,417

C) Estimates related to Receivables: The City contracts with Spokane County for various services, including animal control, district court, emergency management, detention services, pretrial, prosecution, public defense, and law enforcement. Payments made on these contracts throughout the year are based upon costs incurred in the prior year and reconciled to actual costs incurred during the current year through a settle and adjust process. Because the reconciliation of the underlying supporting data between City and County staff is a time consuming process, an estimate is made at year end for the settle and adjust amounts expected for each service contract. The estimate is then recorded as either a liability or receivable, depending on whether the City estimates that additional funds will be owed to the County or that the City will receive a refund for overpayment, along with a corresponding increase or decrease in expenditure.

Liability and receivable balances related to settle and adjust estimates as of December 31, 2017, are as follows:

Contract Year	(Liability) or Receivable Balance 1/1/17	New Estimate Made	Amount Settled in 2017	(Liability) or Receivable Balance 12/31/17
2011	\$ (17,589)	\$ -	17,589	-
2012	(6,669)	-	6,669	-
2013	(213,940)	-	213,940	-
2014	122,230	-	(122,230)	-
2015	770,161	-	(821,266)	(51,105)
2016	(607,103)	973,445	696,644	1,062,986
2017	-	727,709	-	727,709

Notes to Financial Statements

NOTE 11 – RECEIVABLE AND PAYABLE BALANCES continued:

During early 2017, the City was notified that the 2015 Sheriff contract was settled with a result of the County owing the City a refund for overpayment in the amount of \$912,756 as compared to the original receivable of \$487,301 that was estimated at the end of 2015. In order to properly reflect the new balance of the receivable, the City recorded an additional receivable balance and reduction in expenditure of \$425,455 as of the end of 2015. The settlement will be received by the City throughout 2017 as reflected as a reduction in the amount owed on the Sheriff Law Enforcement contract invoices each month.

For 2017, the City estimated that it would owe a net payable to the County on the contracted services for a total recorded payable of \$727,709, which was adjusted against the 2017 contract expenditures.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Health & Welfare - Association of Washington Cities Employee Benefit Trust (“Trust”)

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

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

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

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

Asuris HealthFirst 1000	Monthly Amounts
Non-Medicare enrolled retiree coverage	\$ 734.37
Non-Medicare enrolled spouse coverage	\$ 740.78
First Child	\$ 207.67
Second Child	\$ 164.23
Asuris HealthFirst 2500	Monthly Amounts
Non-Medicare enrolled retiree coverage	\$ 641.21
Non-Medicare enrolled spouse coverage	\$ 645.87
First Child	\$ 181.55
Second Child	\$ 143.71
Asuris Plan R-1500	Monthly Amounts
Non-Medicare enrolled retiree coverage	\$ 1,304.75
Non-Medicare enrolled spouse coverage	\$ 1,310.03
First Child	\$ 371.44
Second Child	\$ 312.63

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) continued:

Asuris Medicare Advantage	Monthly Amounts
Retiree w/ Medicare A&B	\$ 395.23
Spouse w/ Medicare A&B	\$ 395.23
Kaiser Permanente Retiree	Monthly Amounts
Non-Medicare enrolled retiree coverage	\$ 1,232.79
Non-Medicare enrolled spouse coverage	\$ 1,196.86
Medicare enrolled retiree coverage	\$ 453.53
Medicare enrolled spouse coverage	\$ 453.53
First dependent	\$ 358.63
Second & all other dependents	\$ 447.02
Delta Dental Retiree	Monthly Amounts
Retiree	\$ 61.54
Retiree + spouse	\$ 125.42
Retiree + child(ren)	\$ 124.57
Retiree + spouse + child(ren)	\$ 187.11

Participating employers are not contractually required to contribute to the Trust. The retirees who elect coverage through the Trust pay 100 percent of the premium. As such, the City of Spokane Valley did not have any contributions to the Trust for the year ended December 31, 2017

Funding Status and Funding Progress: The funded status of the AWC Employee Benefits Trust Health Care Program as of January 1, 2017, which was the date of the last actuarial valuation, was as follows (*dollars in thousands*):

Actuarial accrued liability (AAL)	\$ 8,297
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 8,297
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	N/A ¹
UAAL as a percentage of covered payroll	N/A ¹

¹ Covered Payroll information was not provided to the AWC Trust.

Notes to Financial Statements

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

The schedule of funding progress is also presented as *required supplementary information* (RSI) following these Notes to the Financial Statements, and the schedule presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The AWC Employees Benefits Trust had substantial assets recorded as of December 31, 2016. *Because those assets have not been placed into an irrevocable trust for the sole purpose of providing the above OPEB benefits, the AWC understands that they cannot be reflected as “actuarial assets” in the precedent table under GASB 43 in determining the remaining values for this Trust.*

The AWC Employee Benefits Trust’s annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 will be determined with the next conducted actuarial analyses scheduled for January 1, 2018. The reported years of 2009 through 2017 were as follows (*dollars in thousands*):

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 29,872	7.86%	\$ 55,364
12/31/2010	27,892	4.42%	82,022
12/31/2012	12,885	7.77%	130,474
12/31/2013	11,858	9.20%	141,241
12/31/2014	1,273	61.19%	34,407
12/31/2015	83 ¹	310.89% ¹	5,911
12/31/2016	650	39.69%	6,264
12/31/2017	945	22.33%	8,297

1) Adjustments to Net OPEB Obligation reported

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

City of Spokane Valley, Washington

Comprehensive Annual Financial Report - Fiscal Year 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget to Actual

General Fund, Major Fund

For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Approved Original Budget	Final Amended Budget		
Revenues				
Taxes	\$ 34,396,100	\$ 34,396,100	\$ 35,838,314	\$ 1,442,214
Licenses and permits	2,235,800	2,235,800	2,971,586	735,786
Intergovernmental revenues	2,159,600	2,273,800	2,556,393	282,593
Charges for services	1,286,800	1,314,800	1,298,258	(16,542)
Fines and forfeitures	528,300	528,300	427,624	(100,676)
Investment interest	73,000	73,000	326,401 ¹	253,401
Miscellaneous	699,800	706,800	666,089	(40,711)
<i>Total Revenues</i>	<u>41,379,400</u>	<u>41,528,600</u>	<u>44,084,665</u>	<u>2,556,065</u>
Expenditures				
Current:				
General government	5,503,105	5,511,405	4,865,817	(645,588)
Public safety	25,103,372	25,103,372	21,465,496	(3,637,876)
Utilities and physical environment	2,372,766	2,403,366	1,942,031	(461,335)
Economic environment	843,632	852,832	773,252	(79,580)
Community development	2,055,864	2,129,964	1,354,999	(774,965)
Culture and recreation	2,867,783	2,971,383	2,743,228	(228,155)
Debt service:				
Interest expense	-	-	600	600
Capital Outlay:				
Capital expenditures	600,000	707,000	658,141	(48,859)
Construction in progress	-	-	-	-
<i>Total Expenditures</i>	<u>39,346,522</u>	<u>39,679,322</u>	<u>33,803,564</u>	<u>(5,875,758)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>2,032,878</u>	<u>1,849,278</u>	<u>10,281,101</u>	<u>8,431,823</u>
Other Financing Sources (Uses)				
Transfers in	614,025	699,025	684,803	(14,222)
Transfers (out)	(3,097,150)	(6,392,359)	(6,359,079)	(33,280)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,483,125)</u>	<u>(5,693,334)</u>	<u>(5,674,276)</u>	<u>(19,058)</u>
<i>Net Change in Fund Balances (deficit)</i>	<u>(450,247)</u>	<u>(3,844,056)</u>	<u>4,606,825¹</u>	<u>8,450,881</u>
<i>Fund Balances Beginning of Year:</i>	<u>34,857,397</u>	<u>34,857,397</u>	<u>34,857,397¹</u>	<u>-</u>
<i>Fund Balances End of Year:</i>	<u>\$ 34,407,150</u>	<u>\$ 31,013,341</u>	<u>\$ 39,464,222¹</u>	<u>\$ 8,450,881</u>

¹ While applying the GASB-54 reporting standard, total fund balance end of the year increased by \$4,606,825, the net change in fund balances of \$4,590,250, increased by \$16,575 due to investment interest, resulting in an increase of \$4,606,825 to beginning fund balance from the two combined Non-major Special Revenue Funds; as reported in the General Fund on the Statement of Rev, Expend, and Changes in Fund Balances.

City of Spokane Valley, Washington

Comprehensive Annual Financial Report - Fiscal Year 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

Street Fund, Major Fund

For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Approved Original Budget	Final Amended Budget		
Revenues				
Taxes	\$ 2,200,000	\$ 2,000,000	\$ 1,982,392	\$ (17,608)
Intergovernmental revenues	2,139,168	2,139,168	2,132,509	(6,659)
Charges for services	50,000	50,000	136,112	86,112
Investment interest	4,000	4,000	7,843	3,843
Miscellaneous	10,000	10,000	134,485	124,485
<i>Total Revenues</i>	<u>4,403,168</u>	<u>4,203,168</u>	<u>4,393,341</u>	<u>190,173</u>
Expenditures				
Current:				
Utilities and physical environment	130,000	130,000	283,514	153,514
Transportation	4,329,202	4,337,202	4,204,293	(132,909)
Debt Service:				
Principal retirement	-	-	-	-
Capital Outlay:				
Capital expenditures	285,000	85,000	49,702	(35,298)
Construction in progress	-	-	-	-
<i>Total Expenditures</i>	<u>4,744,202</u>	<u>4,552,202</u>	<u>4,537,509</u>	<u>(14,693)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(341,034)</u>	<u>(349,034)</u>	<u>(144,168)</u>	<u>204,866</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers (out)	(107,042)	(107,042)	(107,042)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(107,042)</u>	<u>(107,042)</u>	<u>(107,042)</u>	<u>-</u>
<i>Net Change in Fund Balances (deficit)</i>	<u>(448,076)</u>	<u>(456,076)</u>	<u>(251,210)</u>	<u>204,866</u>
<i>Fund Balances Beginning of Year</i>	<u>1,318,504</u>	<u>1,318,504</u>	<u>1,318,504</u>	<u>-</u>
<i>Fund Balances End of Year (Deficit)</i>	<u>\$ 870,428</u>	<u>\$ 862,428</u>	<u>\$ 1,067,294</u>	<u>\$ 204,866</u>

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

<div>City of Spokane Valley</div> <div>Schedule of Proportionate Share of Net Pension Liability</div> <div>PERS 1</div> <div>For the Year Ended December 31, 2017</div>				
		Fiscal Year 2016		Fiscal Year 2017
Employer's proportion of the net pension liability (asset)		0.053037%		0.054158%
Employer's proportionate share of the net pension liability	\$	2,848,337	\$	2,569,839
Total	\$	2,848,337	\$	2,569,839
Employer's covered employee payroll	\$	6,628,805	\$	6,142,722
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		42.97%		41.84%
Plan fiduciary net position as a percentage of the total pension liability		57.03%		61.24%
Provided from note 2 of DRS Participating Employer Financial Information report (PEFI) for the % of each plan. ¹				

¹ Measurement date of June 30, 2017, for the State sponsored pension plans.

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

City of Spokane Valley Schedule of Proportionate Share of Net Pension Liability PERS 2/3 For the Year Ended December 31, 2017			
	Fiscal Year 2016		Fiscal Year 2017
Employer's proportion of the net pension liability (asset)		0.067862%	0.069662%
Employer's proportionate share of the net pension liability	\$	3,416,798	\$ 2,420,422
Total	\$	3,416,798	\$ 2,420,422
Employer's covered employee payroll	\$	6,628,805	\$ 6,142,722
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		51.54%	39.40%
Plan fiduciary net position as a percentage of the total pension liability		85.82%	90.97%
<i>Provided from note 2 of DRS Participating Employer Financial Information report (PEFI) for the % of each plan.¹</i>			

¹ Measurement date of June 30, 2017, for the State sponsored pension plans.

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

<p><i>City of Spokane Valley</i> <i>Schedule of Employer Contributions</i> <i>PERS 1 (two year trend) ¹</i> <i>For the Year Ended December 31, 2017</i></p>		
	Fiscal Year 2016	Fiscal Year 2017
Statutorily or contractually required contributions	\$ 305,736	\$ 300,891
Contributions in relation to the statutorily or contractually required contributions	\$ (305,736)	\$ (300,891)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered employee payroll	\$ 6,628,805	\$ 6,142,722
Contributions as a percentage of covered employee payroll	4.61%	4.90%
<p><i>City of Spokane Valley does "not" currently have active PERS 1 pension plan participants. As such, PERS 1 contributions represent the Unfunded Actuarial Liability (UAAL) as calculated by The Department of Retirement Systems.</i></p>		

City of Spokane Valley, Washington
Comprehensive Annual Financial Report - Fiscal Year 2017

City of Spokane Valley Schedule of Employer Contributions PERS 2/3 (two year trend) ¹ For the Year Ended December 31, 2017		
	Fiscal Year 2016	Fiscal Year 2017
Statutorily or contractually required contributions	\$ 399,315	\$ 420,895
Contributions in relation to the statutorily or contractually required contributions	\$ (399,315)	\$ (420,895)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered employee payroll	\$ 6,628,805	\$ 6,142,722
Contributions as a percentage of covered employee payroll	6.02%	6.85%
1) Until a full 10-year trend can be compiled, two year trend information is presented for the PERS 2/3 pension plan as of 12/31/2017.		

City of Spokane Valley

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017

Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures			Passed Through to Subrecipients
			Indirect	Direct	Total	
U.S. Department of Housing and Urban Development						
Passed Through Spokane County Housing and Community Development Department (Community Development Block Grants/Entitlement Grants)						
Sidewalk Improvements	14.218	CDBG 17-12	\$ 11,606	\$ -	\$ 11,606	\$ -
Total Housing and Urban Development			\$ 11,606	\$ -	\$ 11,606	\$ -
U.S. Department of Transportation						
Passed through State of Washington						
Department of Transportation (Highway Planning and Construction)						
Mission Avenue Improvement Project	20.205	STPUL-4132(001)	\$ 158,897	\$ -	\$ 158,897	\$ -
Sullivan & Euclid PCC Intersections Project	20.205	STPUL-4103(006)	1,211,557	-	1,211,557	-
Broadway @ Argonne/Mullan PCC Intersections	20.205	STPUL-4039(003)	3,202	-	3,202	-
Sullivan Rd. W Bridge Replacement	20.205	BRM-4103(007)	17,712	-	17,712	-
Pines Road (SR27) and Grace Avenue Intersection Safety	20.205	HSP-0027(013)	18,326	-	18,326	-
Citywide Safety Improvements	20.205	HSP-000S(326)	(1,121)	-	(1,121)	-
ITS Infill Project, Phase 1	20.205	CM-1223(003)	685	-	685	-
McDonald Rd Diet - 16th Ave North to Mission Ave	20.205	HSP-4083(003)	1,227	-	1,227	-
City Wide Reflective Signal Backplate	20.205	HSP-000S(462)	38,200	-	38,200	-
Appleway Resurfacing	20.205	STPUL-3852(001)	149	-	149	-
Appleway Shared Use Path	20.205	STPUL-1223(004)	1,536,887	-	1,536,887	-
Sprague Preservation - Sullivan to Corbin	20.205	STPUL-3840(011)	76,403	-	76,403	-
Sullivan-Wellesley Intersection	20.205	CM-4103(011)	13,072	-	13,072	-
North Sullivan ITD	20.205	CM-4103(012)	79,133	-	79,133	-
City Wide Signal Back Plates	20.205	HSP-000S(463)	143	-	143	-
Wellesley Sidewalk Project, McDonald to Evergreen	20.205	SRTS-3902(008)	11,756	-	11,756	-
Argonne Rd Preservation, Broadway to Indiana	20.205	STPUL-4039(004)	19,534	-	19,534	-
Barker Rd/BNSF Grade Separation	20.205	REP-4123(005)	87,611	-	87,611	-
Subtotal 20.205 Highway Planning and Construction			\$ 3,273,373	\$ -	\$ 3,273,373	\$ -
Passed through Spokane Transit Authority						
Federal Transit Administration						
University and 9th St Sidewalk Project	20.507	STA 5310	154,211	-	154,211	-
Subtotal 20.507 Federal Transit Formula Grant			\$ 154,211	\$ -	\$ 154,211	\$ -
Total Department of Transportation			\$ 3,427,584	\$ -	\$ 3,427,584	\$ -
U.S. Department of Homeland Security						
Passed Through Washington Military Department						
FEMA Disaster Assistance						
Disaster Number 4249-DR-WA	97.036	063-67167-00	\$ 11,283	\$ -	\$ 11,283	\$ -
Total Department of Homeland Security			\$ 11,283	\$ -	\$ 11,283	\$ -
Total Federal Assistance			\$ 3,450,473	\$ -	\$ 3,450,473	\$ -

The accompanying notes to the Schedule of Expenditures of Awards are an integral part of this schedule.

City of Spokane Valley

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017

Notes to the Schedule of Expenditures of Federal Awards:

Note 1 - Basis of Accounting: The schedule of expenditures of federal awards is prepared on the same basis of accounting as the City's financial statements. The accrual basis of accounting is used for all funds except for the governmental funds which use the modified accrual basis of accounting.

Note 2 - Program Costs: The amounts shown as current expenditures represent only the federal grant portion of program costs. Entire program costs, including the City's portion, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate: The City does not record indirect costs and has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance

Note 4 - Return of Federal Funds: In 2017, the City returned \$2,261.50 in indirect federal grant funds for CFDA 20.205 to the Washington State Department of Transportation. These funds had been awarded for use in the Spokane Valley - Citywide Safety Improvements and were used in 2016. In 2017 it was determined that the funds spent were not eligible expenditures and were returned to the Washington State Department of Transportation.

Note 5 - Closed Project Expenditures: A portion reported expenditures for these projects are related to multiple years prior to 2017. Final grant reimbursements occurred following the end of the 2017 fiscal year. However, the amount of federal funds received in the final reimbursement combined with the funds received during 2017 exceed the recorded expenditures for the 2017 fiscal year.

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.

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