Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Spokane
Spokane County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010571

Issue Date
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WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 30, 2013

Mayor and City Council
City of Spokane
Spokane, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

Federal Summary 1

Schedule of Federal Audit Findings and Questioned Costs 3

Schedule of Prior Federal Audit Findings 25

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* 28

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 30

Independent Auditor's Report on Financial Statements 34

Financial Section 37

Federal Summary

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs, with the exception of the CFDA 11.555 Public Safety Interoperable Communications Grant Program, CFDA 14.218/14.253 Community Development Block Grants/Entitlement Grants Cluster and CFDA 14.235 Supportive Housing Program on which we issued a qualified opinion on compliance with applicable requirements.

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
11.555	Public Safety Interoperable Communications Grant Program
14.218	Community Development Block Grants/Entitlement Grants Program Cluster
14.235	Supportive Housing Program
14.239	HOME Investment Partnerships Program
14.253	CDBG – Entitlement Grants Cluster - Community Development Block Grant ARRA Entitlement Grants (Recovery Act)
14.907	ARRA - Lead Based Paint Hazard Control in Privately-Owned Housing (Recovery Act)
16.710	Public Safety Partnership and Community Policing Grants
16.738	JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant Program
16.804	JAG Program Cluster - ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Recovery Act)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $700,338.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

1. The City did not have adequate internal controls to properly manage grant funds in compliance with federal grant requirements for its Public Safety Interoperable Communications Grant.

CFDA Number and Title:	11.555 - Public Safety Interoperable Communications Grant
Federal Grantor Name:	U.S. Department of Commerce
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Military Department
Pass-through Award/Contract Number:	E08-358
Questioned Cost Amount:	$0

Description of Condition

During 2012, the Spokane Police Department spent $1,745,424 in federal Public Safety Interoperable Communications Grant funds. The purpose of the grant is to enhance countywide communication capabilities if it is necessary to respond to and recover from disasters and incidents of terrorism. The grant award, including amendments, indicated the grant funds could be incurred and obligated through June 30, 2012.

Cash Management
Recipients of federal grants are required to establish internal controls to minimize the time that elapses between the receipt of federal funds from the grantor, and the payment of those funds to vendors who provide goods or services. Interest earnings that exceed $100 per year from excess cash balances must be paid to the federal grantor.

Our audit found the Police Department did not expend amounts requested in a timely manner. The City requested reimbursement for the entire grant amount on July 25, 2012 and funds were received from the grantor on August 2, 2012. The City paid $1,679,305 of the grant expenditures on September 25, 2012, and the remaining $66,119 on October 3, 2012. In addition, the Department did not calculate interest earnings on the cash balance to determine if a portion of those earnings should be paid to the grantor.

Period of Availability
Federal grant recipients are required to establish internal controls that ensure expenditures are obligated and paid within the approved period of availability. Federal law provides a period of up to 90 days after the end of the funding period to pay vendors for allowable grant expenditures.

Since the grant period ended on June 30, 2012, the City had until September 30, 2012 to pay vendors. The payment made on October 3, 2012, was outside of the period of availability.

Cause of Condition

City personnel did not follow established controls to:

- Monitor grant funds received to ensure timely vendor payment.
- Evaluate cash balances for cash management requirements, including the calculation of interest earnings.
- Monitor the period of availability to ensure all vendor payments were made within the allowed time period.

Effect of Condition and Questioned Costs

The City did not take steps to reduce the time elapsing from the date it received federal funds to the date it spent the funds on program costs. The City calculated that it earned $2,416 of interest on the cash balances. Interest earnings in excess of $100 must be returned to the grantor.

The City paid $66,119 in grant funds to vendors outside of the allowable time period.

Recommendation

We recommend the City:

- Follow controls to minimize the time between receipt of funds from the granting agency and disbursement of those funds.
- Compute interest earned on advance funds and remit it to the grantor when required.
- Establish and follow controls to ensure grant funds are spent within the allowable time period.

We also recommend the City remit the $2,316 of interest earned during the 2012 program year to the Department of Commerce.

City's Response

The City will be taking the following actions related to this finding:

- *Implement a new city-wide procedure for grant funded expenditures that will eliminate the need to draw down cash from grantors in advance of payments to vendors or subrecipients who provide goods and services.*
- *Review procedures and train staff on procedures for monitoring period of availability on payments for grant funded expenditures.*

Interest earnings of $2,416 on the excess cash balance in 2012 have been sent to the U.S. Department of Commerce.

The City thanks the State Auditors Office for their recommendation, and looks forward to the resolution of this item in subsequent audits.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 15, Code of Federal Regulations, Section 24.20 Standards for financial management systems, states in part:

> (b)(7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Title 15, Code of Federal Regulations, Section 24.23 Period of availability of funds, states in part:

> (b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

2. The City did not have adequate internal controls to comply with federal grant requirements for its Community Development Block Grants.

CFDA Number and Title:	14.218 Community Development Block Grants/Entitlement Grants 14.253 Community Development Block Grant/Entitlement Grants (American Recovery and Reinvestment Act)
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	B10-MC-530006 B11-MC-530006 B09-MY-53-0006
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$ 1,058,692 (non-Recovery Act funds) $ 0 (Recovery Act funds)

Description of Condition

During 2012, the City spent $4,789,801 in federal Community Development Block Grant funds, of which $50,000 was from the American Recovery and Reinvestment Act. The City used this funding to provide housing and to expand economic opportunities for persons of low and moderate income. The Community Housing and Human Services Department administers the block grant program.

Time and Effort

We audited the Community Housing and Human Services Department's internal controls over payroll to determine whether $1,058,692 of salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number of activities in which an employee works, time and effort documentation can be provided on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.

Cash Management

Recipients of federal grants are required to establish internal controls to minimize the time that elapses between the receipt of federal funds from the grantor, and the payment of those funds to vendors who provide goods or services. Interest earnings that exceed $100 per year from excess cash balances must be paid to the federal grantor promptly and at least quarterly.

Our audit found that while the Department calculated interest earned on excess cash balances, employees did not remit interest earnings for the third and fourth quarter of 2012 to the grantor until the auditors requested records for audit in July of 2013.

Reporting

Grant recipients use the Federal Financial Report (SF-425) to report federal award expenditures and the cash status of grants, when applicable, on a quarterly basis. We found that the City did not submit the third and fourth quarter reports until requested for audit.

Program Income

Program income is income generated from grant-related activities and is treated as additional grant funding. It is subject to all grant requirements and must be spent on program activities before additional cash draws are made. Federal regulations allow cash balances to be held with the approval of the grantor.

We found the Department estimates future grant expenditures, with an allowance for the current cash balance, to determine a cash draw amount that will ensure a remaining cash balance of approximately $100,000. The Department has not received approval from the grantor to maintain a cash balance.

Cause of Condition

Time and Effort

Department employees are responsible for the oversight and monitoring of a number of U.S. Department of Housing and Urban Development (HUD) grants. The Department established a payroll allocation method based on total grant expenditures, instead of actual hours worked, as a less labor-intensive method than requiring employees to prepare detailed personnel activity reports or timesheets.

We communicated the same condition for the year ended December 31, 2011, in an audit report dated September 18, 2012. The City immediately committed resources to update policies and develop a new payroll allocation system, however, the new system required complex programing. Testing was completed in November 2012 and the new system was then available for employee use in January 2013.

Cash Management and Reporting

Due to staff turnover the Department did not follow established controls to ensure interest is remitted and quarterly reports are submitted to the grantor timely.

Program Income

Department employees are operating under the assumption that they have approval from HUD to maintain a reasonable excess cash balance which they have defined as approximately $100,000. The Department could provide no evidence of HUD approval for this cash balance.

Effect of Condition and Questioned Costs

Time and Effort

Federal regulations allow for substitute time-recording systems with the approval of the grantor. Since the Department did not obtain approval for the alternative allocation system, salaries and benefits of $1,058,692 for the Department were not supported by time and effort documentation as required. Without documentation, the Department is unable to substantiate the accuracy of payroll costs to its block grant in the manner required by the grantor.

Cash Management and Reporting

Since the Department did not remit interest earnings timely, HUD was denied access to third quarter interest of $2,339 for nine months and $1,558 of fourth quarter interest for five months. In addition, program operating information needed to monitor and evaluate the grant's financial activities was not available to the grantor.

Program Income

The Department made a $93,333 cash draw on February 28, 2012, when it had a cash balance of at least $123,583. The Department continued to make additional cash draws throughout the year without determining it had spent its program income. We communicated the same condition for the year ended December 31, 2011, in an audit report dated September 18, 2012. The Department still has not received formal approval from HUD for this cash balance.

Recommendation

We recommend the Community Housing and Human Services Department:

- Establish and follow internal controls to ensure it complies with federal grant requirements related to documentation of employee time and effort.
- Comply with its established procedures and federal requirements for remitting interest earnings in excess of $100 to HUD.
- Communicate with HUD regarding the disposition of its current cash balance.

City's Response

The City either has already or will be taking the following actions related to this finding:

- *Effective January 1, 2013 the City implemented a time and effort tracking system so that salaries and benefits will be supported by the necessary documentation required by federal regulations.*
- *In response to the questioned costs for 2012, the City is consulting with the U.S. Department of Housing and Urban Development to develop an acceptable rationale for allocating the questioned costs to the various grants administered by the Community, Housing and Human Services Department.*
- *Review, revise in writing if necessary, and train City staff on procedures for compliance with all reporting and cash management requirements.*

- *Communicate with the grantor on the proper disposition of the City's current cash balance.*

- *The City has requested, and the U.S. Department of Housing and Urban Development as agreed to provide, technical assistance to develop best practices in the management of federal grants.*

The City thanks the State Auditors Office for their recommendations, and looks forward to the resolution of these items in subsequent audits.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CRF Part 225), Attachment B, Section 8(h), states in part:

> (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
>
> > (a) More than one Federal award,
> >
> > (b) A Federal award and a non Federal award,
> >
> > (c) An indirect cost activity and a direct cost activity,
> >
> > (d) Two or more indirect activities which are allocated using different allocation bases, or
> >
> > (e) An unallowable activity and a direct or indirect cost activity.
>
> (5) Personnel activity reports or equivalent documentation must meet the following standards:
>
> > (a) They must reflect an after the fact distribution of the actual activity of each employee,
> >
> > (b) They must account for the total activity for which each employee is compensated,
> >
> > (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
> >
> > (d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organizations*, Compliance Supplement 2012 Part 3, Cash Management states in part:

Interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency.

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organizations*, Compliance Supplement 2012 Part 3, Reporting states in part:

Recipients use the Federal Financial Report as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Line 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Title 24, Code of Federal Regulations, Section 570.504 – Program Income, states in part:

> (2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:
>
> > (i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in Sec. 570.500(b) shall be substantially disbursed from the fund before additional cash withdrawls are made from the U.S. Treasury for the same activity. (This rule does not prevent a lump sum disbursement to finance the rehabilitation of privately owned properties as provided for in Sec. 570.513.)
> >
> > (ii) Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

3. The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Supporting Housing Grant.

CFDA Number and Title:	14.235 Supporting Housing Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	NA
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

During 2012, the City spent $1,995,382 in federal Supportive Housing Grant funds. The City used the funds to develop housing and support services that assist the homeless in living as independently as possible. The Community Housing and Services Department administers the program.

Time and Effort

We audited the Community Housing and Services Department's internal controls over payroll to determine whether $147,706 of salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number of activities in which an employee works, time and effort documentation can be provided on a semi-annual certification or a monthly personnel activity report such as a timesheet.

Our audit identified a significant deficiency in internal controls. The Department has established a control that requires employees to print and sign a monthly timesheet. However, we found that although Department employees recorded their time on monthly time reports during 2012, these reports were not printed or signed as required by federal regulations.

Subrecipient Monitoring/Matching

The grant requires the City to provide a matching cash contribution of 20 percent for support services and 25 percent for operating costs. The Community Housing and Services Department used grant funds of $ 1,847,776 to contract with other agencies to provide supportive housing programs and each agreement includes these matching requirements.

Our audit identified a material weakness in internal controls. The Department has established controls that require the monitoring of matching requirements by reviewing other funding sources received by the subrecipient agencies and making on-site monitoring visits when deemed necessary. However, we found the Department did not perform these monitoring activities during 2012. The Department only requested verbal verification from each agency that the matching requirement was met without reviewing any records or documents.

Cause of Condition

Due to staff turnover the Department did not follow established time and effort documentation controls or controls to monitor matching requirements.

Effect of Condition and Questioned Costs

Personnel activity reports were not printed and signed by employees; therefore, they did not meet federal time and effort standards. Since salaries and benefits charged to the grant were supported by personnel activity reports we will not question these costs.

Subrecipients submitted financial data, including funding sources that qualified for the matching requirement, with monthly reimbursement requests; however, the City did not follow established controls to review this information and ensure matching requirements were met. Since financial data was submitted by subrecipients auditors were able to perform procedures to ensure matching requirements were met. As such, we were able to determine the subrecipients complied with this requirement.

Recommendation

We recommend the Community, Housing and Human Services Department follow its established internal controls and ensure:

- Time and effort documentation is signed by the employee as required.
- Subrecipients are monitored for the achievement of matching requirements.

City's Response

The City will be taking the following actions related to this finding:

- *Time and Effort: Review and confirm with City staff previously established procedures for proper certification of time and effort documentation.*

- *Subrecipient Monitoring/Matching: Review and confirm with City staff previously established procedures to ensure that subrecipient monitoring and all other grant related requirements are met.*

As the auditor noted, no questioned costs were identified as part of this finding because subsequent procedures determined that all costs reviewed were for allowable program purposes.

The City thanks the State Auditors Office for their recommendations, and looks forward to the resolution of these items in subsequent audits.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CRF Part 225), Attachment B, Section 8(h), states in part:

> (5) Personnel activity reports or equivalent documentation must meet the following standards:
>
> > (a) They must reflect an after the fact distribution of the actual activity of each employee,
> >
> > (b) They must account for the total activity for which each employee is compensated,
> >
> > (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
> >
> > (d) They must be signed by the employee.

Title 24, Code of Federal Regulations, Section 85.24 Matching or cost sharing, states in part:

> Matching or cost sharing.
>
> (a) *Basic rule: Costs and contributions acceptable.* With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:
>
> > (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.
> >
> > (2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies.
> >
> > . . .
> >
> > (6) *Records.* Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed

on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

The U.S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, outlines responsibilities for pass-through entities receiving federal funds and states in part:

Section 300

The auditee shall

a. Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of it's federal programs.

Section 400

(d) Pass-through entity responsibilities:

A pass-through entity shall perform the following for the Federal awards it makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

4. The City did not have adequate internal controls to ensure compliance with time and effort requirements for its Home Investment Partnership Program Grant.

CFDA Number and Title:	14.239 Home Investment Partnership Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	M08-MC-530201 M09-MC-530201 M10-MC-530201 M11-MC-530201 M12-MC-530201
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$ 106,934 (non-Recovery Act funds) $ 0 (Recovery Act funds)

Description of Condition

During 2012, the City spent $1,472,988 in federal Home Investment Partnership Program funds. The City used this funding to expand the supply of affordable housing for persons with low or very low income. The Community Housing and Human Services Department administers the grant program.

Time and Effort

We audited the Community Housing and Human Services Department's internal controls over payroll to determine whether $ 106,934 of salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number of activities in which an employee works, time and effort documentation can be provided on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.

Cause of Condition

Department employees are responsible for the oversight and monitoring of a number of U.S. Department of Housing and Urban Development (HUD) grants. The Department established a payroll allocation method based on total grant expenditures, instead of actual hours worked, as a less labor-intensive method than requiring employees to prepare detailed personnel activity reports or timesheets.

Effect of Condition and Questioned Costs

Federal regulations allow for substitute time-recording systems with the approval of the grantor. Since the Department did not obtain approval for the alternative allocation system, salaries and benefits of $106,934 for the Department were not supported by time and effort documentation as required. Without documentation, the Department is unable to substantiate the accuracy of payroll costs to this grant in the manner required by the grantor.

Recommendation

We recommend the Community Housing and Human Services Department establish and follow appropriate internal controls to ensure it meets federal time and effort requirements.

City's Response

The City either has already or will be taking the following actions related to this finding:

- *Effective January 1, 2013, the City implemented a time and effort tracking system so that salaries and benefits will be supported by the necessary documentation required by federal regulations.*

- *In response to the questioned costs for 2012, the City is consulting with the U.S. Department of Housing and Urban Development to develop an acceptable rationale for allocating the questioned costs to the various grants administered by the Community, Housing and Human Services Department.*

The City thanks the State Auditors Office for their recommendations, and looks forward to the resolution of these items in subsequent audits.

Auditor's Remarks

We appreciate the City's commitment to resolving this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CRF Part 225), Attachment B, Section 8(h), states in part:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A Federal award and a non-Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

5. The City did not have adequate internal controls to ensure compliance with time and effort requirements for its Lead-Based Paint Grant.

CFDA Number and Title:	14.907 ARRA Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded)
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	WA LHB 0429-08
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$32,191 (Recovery Act funds)

Description of Condition

During 2012, the City spent $411,468 in federal Lead-Based Paint Hazard Control from the American Recovery and Reinvestment Act. The City used this funding to evaluate and control lead-based paint hazards in low-income residential housing. Community Housing and Human Services Department employees administer and monitor the program. The Department contracts with vendors to perform the hazard assessments and housing renovations.

Time and Effort

We audited the Community Housing and Human Services Department's internal controls over payroll to determine whether $32,191 of salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number of activities in which an employee works, time and effort documentation can be provided on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked. Employees do not track actual hours worked on each grant or complete time and effort documentation.

Cause of Condition

Department employees are responsible for the oversight and monitoring of a number of U.S. Department of Housing and Urban Development (HUD) grants. The Department

established a payroll allocation method based on total grant expenditures, instead of actual hours worked, as a less labor-intensive method than requiring employees to prepare detailed personnel activity reports or timesheets.

We communicated the same condition for the year ended December 31, 2011, in an audit report dated September 18, 2012. The City immediately committed resources to update policies and develop a new payroll allocation system, however, the new system required complex programing. Testing was completed in November 2012 and the new system was then available for employee use in January 2013.

Effect of Condition and Questioned Costs

Federal regulations allow for substitute time-recording systems with the approval of the grantor. Since the Department did not obtain approval for the alternative allocation system, salaries and benefits of $32,191 for the Department were not supported by time and effort documentation as required. Without documentation, the Department is unable to substantiate the accuracy of payroll costs to its Lead-Based Paint grant in the manner required by the grantor.

Recommendation

We again recommend the Community Housing and Human Services Department establish and follow internal controls to ensure it meets federal time and effort requirements.

City's Response

The City either has already or will be taking the following actions related to this finding:

- *Effective January 1, 2013, the City implemented a time and effort tracking system so that salaries and benefits will be supported by the necessary documentation required by federal regulations.*

- *In response to the questioned costs for 2012, the City is consulting with the U.S. Department of Housing and Urban Development to develop an acceptable rationale for allocating the questioned costs to the various grants administered by the Community, Housing and Human Services Department.*

The City thanks the State Auditors Office for their recommendations, and looks forward to the resolution of these items in subsequent audits.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CRF Part 225), Attachment B, Section 8(h), states in part:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A Federal award and a non Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Schedule of Federal Audit Findings and Questioned Costs

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

6. The City did not have adequate internal controls to ensure compliance with cash management requirements for its Public Safety Partnership and Community Policing Grant.

CFDA Number and Title:	16.710 - Public Safety Partnership and Community Policing Grant
Federal Grantor Name:	U.S. Department of Justice
Federal Award/Contract Number:	2005-IN-WX-0023
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

During 2012, the Spokane Police Department spent $1,108,460 in federal Public Safety Partnership and Community Policing Grant funds. The purpose of the grant is to enhance countywide communication capabilities if it is necessary to respond to and recover from disasters and incidents of terrorism.

Cash Management
Recipients of federal grants are required to establish internal controls to minimize the time that elapses between the receipt of federal funds from the grantor, and the payment of those funds to vendors who provide goods or services. Interest earnings that exceed $100 per year from excess cash balances must be paid to the federal grantor.

Our audit found the Police Department did not expend amounts requested in a timely manner. The City requested grant reimbursements five times during 2012. In one instance, $282,197 was requested on August 24, 2012, and received from the grantor on August 27, 2012. The City did not disburse these funds to vendors until October 3, 2012. In addition, the Department did not calculate interest earnings on the cash balance to determine if a portion of those earnings should be paid to the grantor.

Cause of Condition

City personnel did not follow established controls to:

- Monitor grant funds received to ensure timely vendor payment.

- Evaluate cash balances for cash management requirements, including the calculation of interest earnings.

Effect of Condition and Questioned Costs

The City did not take steps to reduce the time elapsing from the date it received federal funds to the date it spent the funds on program costs. The City calculated that it earned $228 of interest on the cash balances. Interest earnings in excess of $100 must be returned to the grantor.

Recommendation

We recommend the City:

- Establish appropriate controls to minimize the time between receipt of funds from the granting agency and disbursement of those funds.

- Compute the amount of interest earned on advanced funds and remit excess amounts to the grantor when required.

We also recommend the City remit the $128 of interest earned during the 2012 program year to the Department of Justice.

City's Response

The City plans to implement a new city-wide procedure for grant funded expenditures that will eliminate the need to draw down cash from grantors in advance of payments to vendors or subrecipients who provide goods and services. Interest earnings of $228 has been sent to the U.S. Department of Justice for the excess cash balances.

The City thanks the State Auditors Office for their recommendation, and looks forward to the resolution of this item in subsequent audits.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 states in part:

> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 28, Code of Federal Regulations, Section 66.20 Standards for financial management systems, states in part:

> (b)(7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Schedule of Prior Federal Audit Findings

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

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

Audit Period: 1/1/11 – 12/31/11	**Report Reference No:** 1008352	**Finding Reference No:** 1	**CFDA Number(s):** 14.218/14.253
Federal Program Name and Granting Agency: Community Development Block Grants/Entitlement Grants (American Recovery and Reinvestment Act) – U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** NA	
Finding Caption: The City did not have adequate internal controls to ensure compliance with federal grant requirements for its Community Development Block Grants.			

Background:
During fiscal year 2011, the City spent $7,064,951 in federal Community Development Block Grant funds, of which $335,431 were from the American Recovery and Reinvestment Act. The City is to use this funding to provide housing and to expand economic opportunities for persons of low and moderate income.

We found that the City's East Central Community Center Director was also paid as the Executive Director of a non-profit organization that received funding as a block grant subrecipient which is a violation of federal grant conflict of interest rules. East Central Community Center employees' payroll costs were based on reimbursement requests submitted to the Department. We found reimbursement requests from the Director's non-profit were not always supported by receipts, invoices or other documentation to determine the costs were grant related. In addition, the Community Development Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked.

We also found the Department:

- Did not attempt to report new awards of more than $25,000 made after October 1, 2010 to a website created for tracking subrecipient awards of non-Recovery Act grants.

- Does not enforce the contract term requiring a Financial Reconciliation Report for subrecipients and does not have a process to ensure subrecipients obtain a federal audit and correct findings when necessary.

- Did not have adequate internal controls over program income to determine whether it was accurately calculated, recorded and used in accordance with program requirements.

Status of Corrective Action: (check one)

☐ Fully Corrected	✓ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Taken:
As of January 1, 2013, the City implemented a time tracking system used by all City staff whose salaries and benefits are charged to the Community Development Block Grant to ensure compliance with time and effort requirements The City also reviewed, updated and provided training to City staff to ensure that federal guidelines are followed regarding real or perceived conflicts of interest in the award and administration of contracts. The City also reported all subrecipient awards required by the Federal Funding Accountability and Transparency Act. In addition, the City obtained and reviewed all Financial Reconciliation Reports required by subrecipients to determine compliance with grant requirements. The City also reviewed and trained City staff on procedures for proper review of allowable activities and expenses.

Audit Period: 1/1/11 – 12/31/11	**Report Reference No:** 1008352	**Finding Reference No:** 2	**CFDA Number(s):** 14.907
Federal Program Name and Granting Agency: Lead-Based Paint Hazard Control In Privately-Owned Housing (American Recovery and Reinvestment Act) – U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** NA	

Finding Caption:
The City's Community Development Department did not have adequate internal controls to ensure compliance with time and effort requirements for its Lead-Based Paint Grant.

Background:
During fiscal year 2011, the City spent $1,319,124 in federal Lead-Based Paint grant funds from the American Recovery and Reinvestment Act. The City is to use this grant money to evaluate and control lead-based paint hazards in low-income residential housing. City employees administer and monitor the program. The City contracts with vendors to perform the hazard assessments and housing renovations. The City delegates administration of this program to its Community Development Department.

We audited the Community Development Department's internal controls over payroll to determine whether the $97,016 in salaries and benefits charged to the grant were supported by time and effort documentation as required by federal regulations. Depending on the number of activities in which an employee works, time and effort documentation can be provided on a semi-annual certification or a monthly personnel activity report, such as a timesheet.

Our audit identified a significant deficiency in internal controls. We found the Department's employees allocate payroll costs to grants based on the total expenditures for each grant program rather than on the actual time worked.

Status of Corrective Action: (check one)			
✓ Fully Corrected	☐ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid
Corrective Action Taken: *As of January 1, 2013, the City implemented a time tracking system used by all City staff whose salaries and benefits are charged to the Lead-Based Paint Hazard Control In Privately-Owned Housing Grants to ensure compliance with time and effort requirements.*			

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Spokane
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

TROY KELLEY
STATE AUDITOR

September 19, 2013

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

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Spokane
Spokane, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on CFDA 11.555 Public Safety Interoperable Communications Grant Program, CFDA 14.218/14.253 Community Development Block Grants/Entitlement Grants Program Cluster and CFDA 14.235 Supportive Housing Program

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding its CFDA 11.555 Public Safety Interoperable Communications Grant Program for cash management and period of availability of funds. As described in Finding 2 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding its CFDA 14.218/14.253 Community Development Block Grants/Entitlement Grants Program for cash management, allowable costs/cost principles, program income and reporting. As described in Finding 3 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding its CFDA 14.235 Supportive Housing Program for allowable costs/cost principles, matching and subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the programs.

Qualified Opinion on CFDA 11.555 Public Safety Interoperable Communications Grant Program, CFDA 14.218/14.253 Community Development Block Grants/Entitlement Grants Program Cluster and CFDA 14.235 Supportive Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 its CFDA 11.555 Public Safety Interoperable Communications Grant Program, CFDA 14.218/14.253 Community Development Block Grants/Entitlement Grants Program and CFDA 14.235 Supportive Housing Program for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the accompanying Federal Summary for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures also disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 4, 5 and 6. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and

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

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3 and 6 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 4 and 5 to be significant deficiencies.

City's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

September 19, 2013

Independent Auditor's Report on Financial Statements

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Spokane
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 37.

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, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 39 through 52, budgetary comparison information on pages 112 through 113, pension trust fund information on pages 114 through 116 and information on postemployment benefits other than pensions on page 117 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally

accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

September 19, 2013

Financial Section

City of Spokane
Spokane County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012
Statement of Activities – 2012
Balance Sheet – Governmental Funds – 2012
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2012
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2012
Statement of Net Position – Proprietary Funds – 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2012
Statement of Cash Flows – Proprietary Funds – 2012
Statement of Fiduciary Net Position – Fiduciary Funds – 2012
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2012
Notes to Financial Statements – 2012

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund Accounts – 2012
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Special Assessment Construction Fund – 2012
Schedule of Funding Progress – Employees' Retirement System, Firefighters Pension System and Police Pension System – 2012
Schedule of Employer Contributions – Employees' Retirement System, Firefighters' Pension System and Police Pension System - 2012
Other Postemployment Benefits – Firefighters' Pension System and Police Pension System – 2012
Notes to the Required Supplementary Information – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012
Notes to the Schedule of Expenditures of Federal Awards – 2012
Schedule for General Fund Accounts – Balance Sheet – 2012
Schedule for General Fund Accounts – Statement of Revenue, Expenditures, and Changes in Fund Balances – 2012
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – each fund included in the General Fund Accounts – 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Spokane, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2012. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by $2,267.1 million (net position) for the fiscal year reported.

- Total net position is comprised of the following:

  (1) Net investment in capital assets of $2,050.2 million, includes property, equipment and infrastructure, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Net position of $103.1 million is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net position of $113.8 million represents the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City's governmental funds reported a total ending fund balance of $150.7 million this year, a decrease of $6.6 million from the prior year. A reduction of expenditures in the capital projects funds to construct voter-approved projects of $27 million in streets was the primary item that drove this decrease.

- At the end of the current fiscal year, fund balance for the General Fund totaled $36.8 million, excluding the nonspendable and restricted categories, which is 27% of General Fund revenues and expenditures including transfers.

- Overall, the City maintained its strong financial position in 2012, and is continuing to maintain a stable financial outlook, despite ongoing budgetary pressures related to the slow economic recovery.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

The City has three kinds of funds:

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

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

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

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

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

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

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

Financial Analysis of the City as a Whole

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

The City's net position at fiscal year-end is $2,267.1 million as shown below.

	Governmental Activities		Business-Type Activities		Total	
Summary of Net Position (in thousands)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
ASSETS						
Current and other assets	$ 210,729	$ 215,954	$ 154,888	$ 154,268	$ **365,617**	$ **370,222**
Restricted assets	-	-	13,533	14,632	**13,533**	**14,632**
Capital assets	1,554,081	1,556,119	615,240	597,621	**2,169,321**	**2,153,740**
Total assets	1,764,809	1,772,073	783,661	766,522	**2,548,470**	**2,538,595**
LIABILITIES						
Current liabilities	49,190	16,366	16,492	12,792	**65,683**	**29,159**
Long-term liabilities	185,400	218,035	30,259	33,442	**215,660**	**251,477**
Total liabilities	234,590	234,402	46,752	46,234	**281,342**	**280,636**
NET POSITION						
Net investment in capital assets	1,439,429	1,440,486	610,788	584,615	**2,050,217**	**2,025,102**
Restricted	89,631	100,547	13,471	14,632	**103,102**	**115,179**
Unrestricted	1,159	(3,362)	112,650	121,040	**113,809**	**117,678**
Total net position	$ 1,530,219	$ 1,537,671	$ 736,909	$ 720,287	$ **2,267,128**	$ **2,257,959**

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 8 to 1 and 17 to 1 for business type activities. For the City overall, the current ratio is 9 to 1. We consider these ratios to be very strong.

The City reported positive balances in total net position for both governmental and business-type activities. Net position decreased $7.4 million for governmental activities. Current year activities resulted in a decrease of $14.0 million; however, the decrease is offset by a $6.6 million prior period increase for capital assets. The decrease of $15.8 million in restricted net position and the increase in unrestricted net position for governmental activities of $8.2 million is due to a reclassification of governmental net position from the prior year.

Business activities' net position showed an increase of $16.6 million that is due to an increase in capital assets in the Sewer Fund. Overall, the total net government-wide increase in net assets was $9.1 million.

It should be noted that 94% of the governmental activities' net position is related to capital (with 45% of the capital assets being infrastructure). The City uses these capital assets to provide services to its citizens. With business-type activities, the City has committed 81% of its net position on capital (with 45% of the capital assets being infrastructure). Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 90% of the City's total net position.

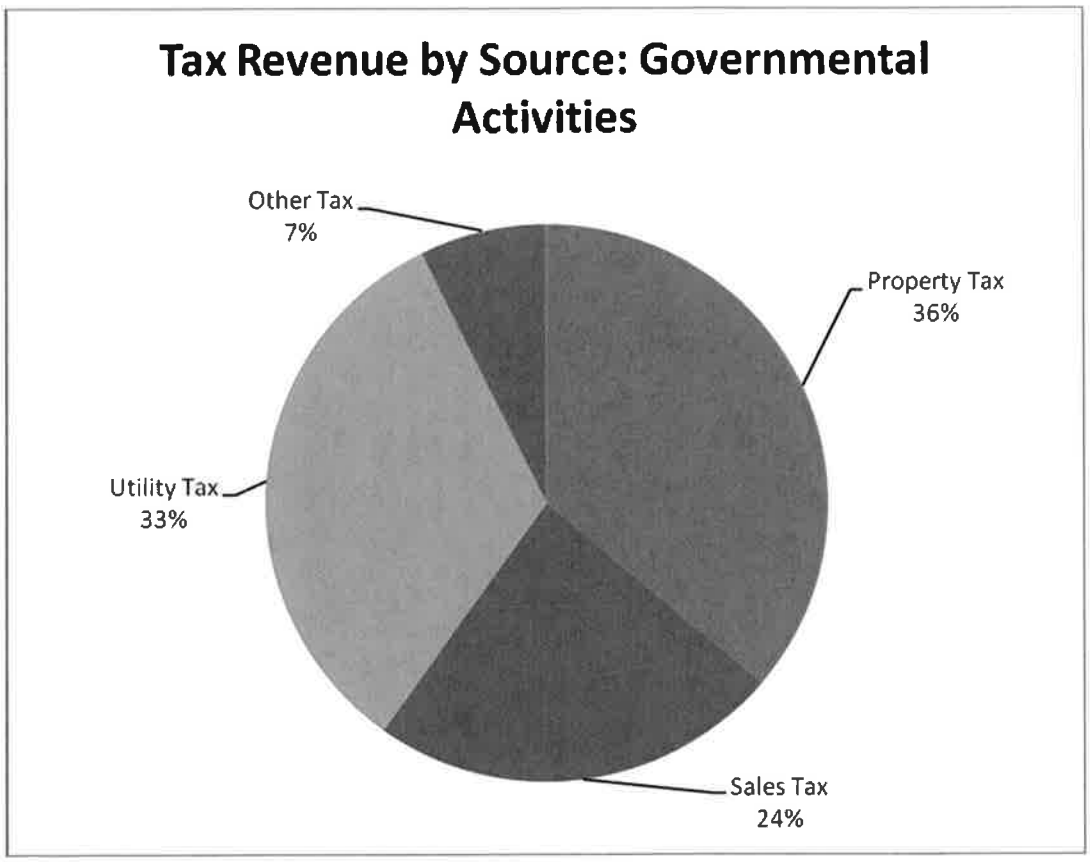
The following page provides a summary of the City's changes in net position:

Change in Net Position (in thousands)	Governmental Activities 2012	Governmental Activities 2011	Business-Type Activities 2012	Business-Type Activities 2011	Total 2012	Total 2011
REVENUES						
Program revenues:						
Charges for services	$ 34,766	$ 29,854	$ 188,003	$ 185,474	**222,769**	**215,328**
Operating grants and contributions	19,280	16,762	-	-	**19,280**	**16,762**
Capital grants and contributions	11,297	18,335	7,486	6,677	**18,783**	**25,012**
General revenues:					-	-
Taxes	175,271	167,377	-	-	**175,271**	**167,377**
Interest and investment earnings	3,938	3,304	1,232	928	**5,170**	**4,232**
Total revenues	244,551	235,632	196,721	193,079	**441,272**	**428,711**
EXPENSES						
General government	(28,092)	(14,785)	-	-	**(28,092)**	**(14,785)**
Judicial	(7,451)	(6,947)	-	-	**(7,451)**	**(6,947)**
Public safety	(114,361)	(108,309)	-	-	**(114,361)**	**(108,309)**
Utilities environment		(1,985)	-	-	-	**(1,985)**
Transportation	(42,310)	(48,458)	-	-	**(42,310)**	**(48,458)**
Economic environment	(20,303)	(24,571)	-	-	**(20,303)**	**(24,571)**
Mental and physical health	(497)	(105)	-	-	**(497)**	**(105)**
Culture and recreation	(37,314)	(30,365)	-	-	**(37,314)**	**(30,365)**
Interest on long-term debt	(8,342)	(8,770)	-	-	**(8,342)**	**(8,770)**
Water	-	-	(36,870)	(33,126)	**(36,870)**	**(33,126)**
Sewer	-	-	(60,490)	(59,323)	**(60,490)**	**(59,323)**
Solid Waste	-	-	(73,192)	(67,942)	**(73,192)**	**(67,942)**
Other business-type activities	-	-	(6,723)	(6,651)	**(6,723)**	**(6,651)**
Total expenses	(258,670)	(244,294)	(177,274)	(167,041)	**(435,944)**	**(411,335)**
Excess (deficiency) of revenues over expenses before contributions & transfers	(14,119)	(8,662)	19,446	26,038	**5,328**	**17,376**
Transfers	17	439	(17)	(439)	-	-
Increase (decrease) in net position	(14,101)	(8,223)	19,429	25,599	**5,328**	**17,376**
Net Position - January 1, as restated	1,544,320	1,545,895	717,480	694,688	**2,261,800**	**2,240,583**
Net Position - December 31	$ 1,530,219	$ 1,537,671	$ 736,909	$ 720,287	**$ 2,267,128**	**$ 2,257,959**

GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations—more than 71% of the governmental activities revenue is derived from taxes. Charges for services represented 14% of these revenues, grants and contributions represented totaled 13%, and interest earnings made up the remaining 2%.

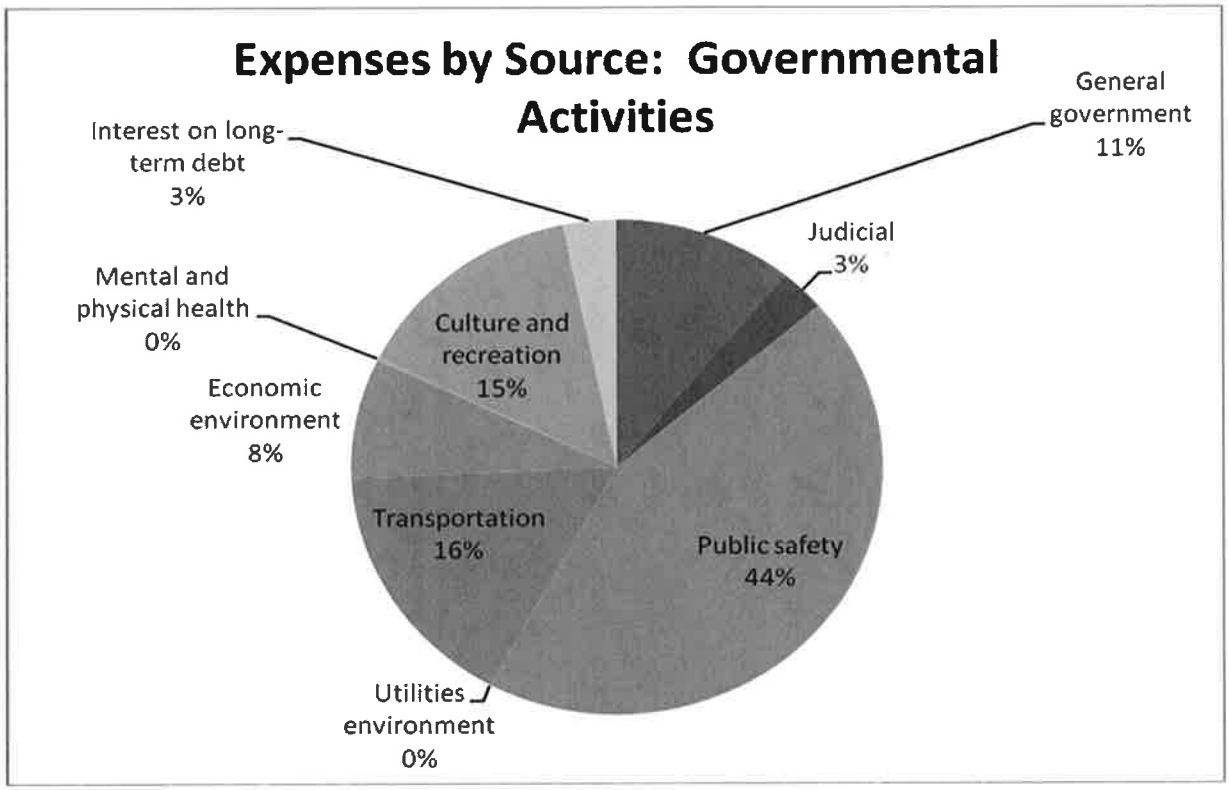
A breakdown of tax revenue is shown below.



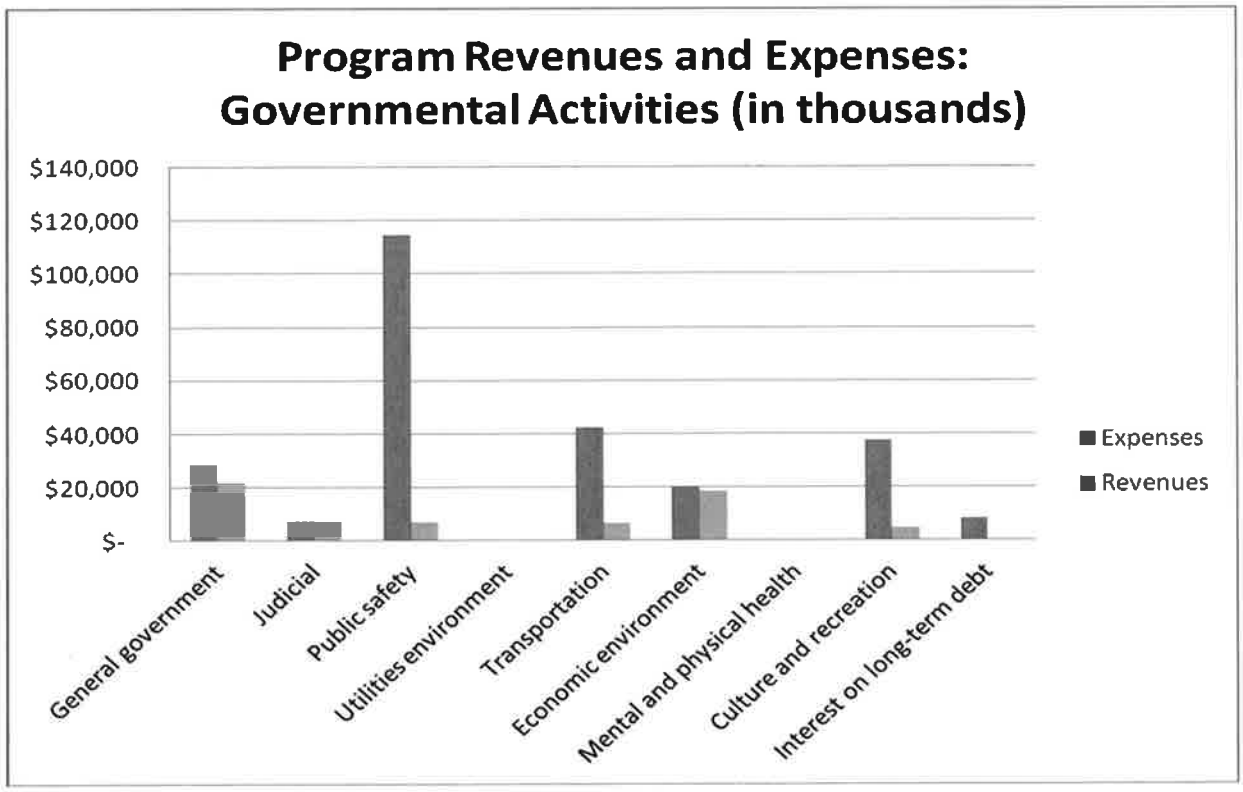
For governmental activities, program revenues cover approximately 25% of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 75% of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

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



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



Program revenues did not cover the program expenses in any function in 2012. Of the capital contributions of $10.2 million, $3.5 million relates to the transfer of capital assets related to the former YMCA property from the General Fund to the Property Acquisition Fund and $5.9 million related to streets from the Department of Transportation, the Washington State Department of Transportation, and the Washington Transportation Improvement Board.

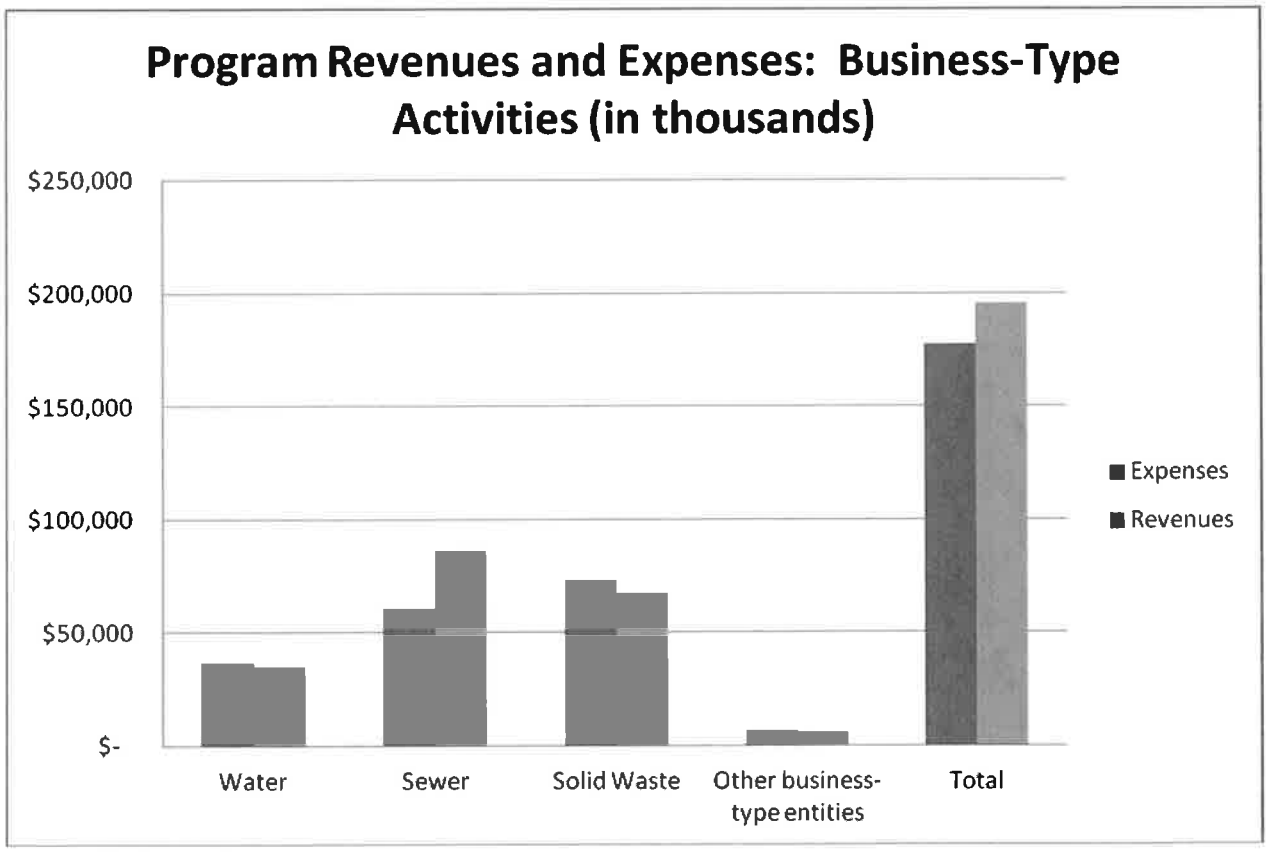
BUSINESS-TYPE ACTIVITIES
Revenues vs. Costs

For all enterprise funds, the City reports a current ratio of 7.1 to 1, which is a healthy ratio. The business-type activities report capitalized assets of $615 million, which provide a variety of services to the citizens of Spokane as well as some populations outside the city limits.

The business-type activities report nearly $120 million in unrestricted net position, which provide these funds with adequate resources to maintain service levels and invest in future infrastructure requirements.

The operating revenues for the City's five enterprise funds decreased by $.9 million over the prior year, and operating expenses increased by $8.6 million or 5.24% over 2011. The result is that operating income decreased by $9.6 million ($8.3 million in 2012 compared to $17.9 million in 2011). The majority of the decrease in operating income is the result of increased operating expenses in the Water and Solid Waste funds. In the Water Fund, the increase is due to higher depreciation expense because of the prior period adjustment recorded in 2011. For the Solid Waste Fund, the increase is due to higher salaries and benefits.

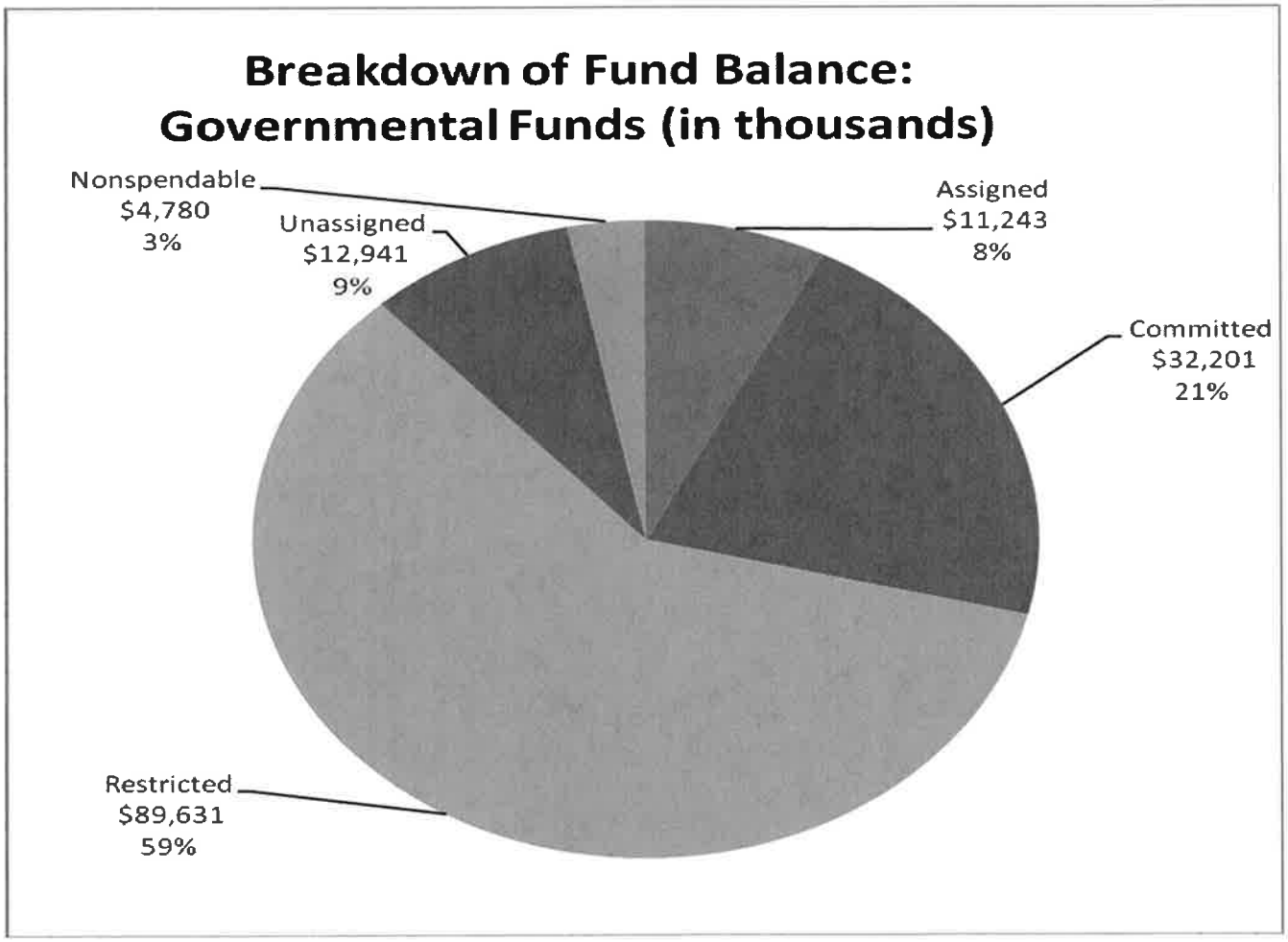
The chart below presents the revenues and expenses of each of the city's business-type activities. This net cost illustrates whether revenues are sufficient to meet current expenses.



Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balance of $150.7 million. Of this total, $11.2 million is assigned and $12.9 million is unassigned. This represents approximately 16% of the total fund balance, and this constitutes a fund balance that is accessible to meet the City's needs. The remainder of the governmental funds' fund balance includes $4.8 million "not in spendable form" for items that are not expected to be converted to near-term cash such as outstanding encumbrances; $89.6 million restricted by external parties, including grantors and creditors, and $32.2 million committed by the City's elected officials for specific purposes.



Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. Pursuant to the implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City has combined several special revenue funds with the general fund for financial reporting purposes. A schedule of the funds included in the General Fund information during 2012 is included as a supplemental schedule. The General Fund's fund balance increased in 2012 by $3.2 million, which includes a net prior period decrease of $.9 million. The inclusion of additional funds for financial reporting purposes did not substantially

affect the increase in fund balance, which is due to the completion of the Riverfront Conservation area (formerly YMCA property).

Committed, assigned and unassigned fund balance in the General Fund was $36.8 million, which as a percentage of expenditures was 27% of annual operations, compared with 22% at the end of 2011. The General Fund reserves are still considered adequate, and provide the City's management with the ability to effectively manage the economic slowdown and budgetary challenges that are facing many businesses and governments at this time. During the strong economic years in the middle of the previous decade, the City's management and elected officials committed to building a robust reserve to ensure the long-term financial health of the General Fund, and the fund balance at the end of 2012 reflects the results of this commitment. The steps taken to achieve this result and how the reserve has been managed during the current economic situation are discussed in the *Budgetary Highlights* section of this analysis.

Taxes totaling $127.7 million made up 78% of total general fund revenue in 2012, an increase of $4.9 million or 3.83% over 2011. The increase is attributable to the following:

$1.5 million	Property Taxes
$2.9 million	Sales Taxes
$.5 million	Other Taxes

Other significant revenue changes were an increase in interfund lease revenue of $1.4 million for the paydown of the YMCA loan, and a $2.8 million increase due to the completion of the Riverfront Conservation area (former YMCA property). All other sources of revenue were similar to 2011.

General fund expenditures (excluding transfers) increased $8.0 million or approximately 6% over 2011. $5.2 million of the increase is for the public safety program, the majority of which is related to salaries and benefits in the Police and Fire Departments. $1.4 million of the increase is due to the inclusion of the Code Enforcement Department in the General Fund. This fund was previously classified as a special revenue fund. The remaining difference of $1.4 million is due to a net increase in all expenditure categories. Since the general fund supports a number of programs in other funds, $26.6 million was transferred to these funds. The amount transferred in 2011 was $28.3 million.

The ***Special Assessment Construction Fund*** accounts for the construction costs and the related interim financing of the special assessment (local improvement districts) construction projects. Local improvement districts (LIDs) are a financing option that allows infrastructure improvements to occur within the city and are funded 100% by the property owners of the LID area. The city's formalized LID process includes advance approval by a majority of the property owners as well as by the City Council. The constructions costs are assessed pro-rata against each benefitting homeowner's property and are repaid over 10-15 years.

The deficit fund balance of $4.8 million in the fund financial statements is due to the fact that the capital assets associated with the LID projects are only reflected in the city's *Statement of Net Position* and are not shown in the governmental fund balance presentation. See Note 1C for additional information regarding the special assessment fund. See Note 1C for additional information regarding the city's special assessment debt service and construction transactions.

The Proprietary Funds

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

The Water System **-** The water system reports net position of over $204 million, with 96% represented by capital assets. The current ratio for this fund is 5.3 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water system reported an operating loss of $3.4 million due to a reduced rate increase and on-going cost increases for benefits, materials, and other costs. Other non-operating revenue of $1.1 million and capital contributions of $1.4 million mitigated the operating loss and resulted in an overall decrease in net position of $.7 million. The declining demand for water service because of the economic downturn and the effects of conservation have affected the fund.

The City's management and elected officials are strategically balancing the amount of utility expenses that the citizens of Spokane can afford with the need to maintain service delivery, maintain and improve the utility's infrastructure, and provide for growth. Currently, this involves setting utility rate increases to be consistent with the consumer price index and aggressively managing operating expenses.

The Sewer System – The sewer system reports net position of $402.7 million, with 81% invested in capital assets. The current ratio for this fund is 7.2 to 1 which provides this fund with adequate resources to cover cash flow issues.

The sewer system reported operating income of $17.0 million with a total increase in net position of approximately $26.9 million after capital contributions. The 2012 capital contributions of $6.0 million include a combination of unamortized balances of state and federal grants, and builder-contributed and donated assets.

The fund still performs favorably compared to prior years, which recognized $14.4 million in operating income and an overall increase in net position of $20.4 million in 2011.

The sewer system reported operating revenues of $76.8 million, which is a 4.45% increase over the prior year. This is consistent with the rate increase approved by the City Council. The sewer system is subject to regulatory requirements that will require significant capital improvements over the next six to ten years. The City's management and elected officials are strategically balancing the amount of utility expenses that the citizens of Spokane can afford with the need to maintain service delivery, maintain and improve the utility's infrastructure, and provide for growth. Currently, this involves setting utility rate increases to be consistent with the consumer price index and aggressively managing operating expenses.

The Solid Waste System – The solid waste system reports net position of $114.2 million. The net investment in capital assets (i.e., the book value of the capital assets less related debt) is $80 million. The current ratio for this fund is 5.3 to 1 which provides this fund with adequate resources to cover cash flow requirements. This fund reports $33.8 million in unrestricted net position.

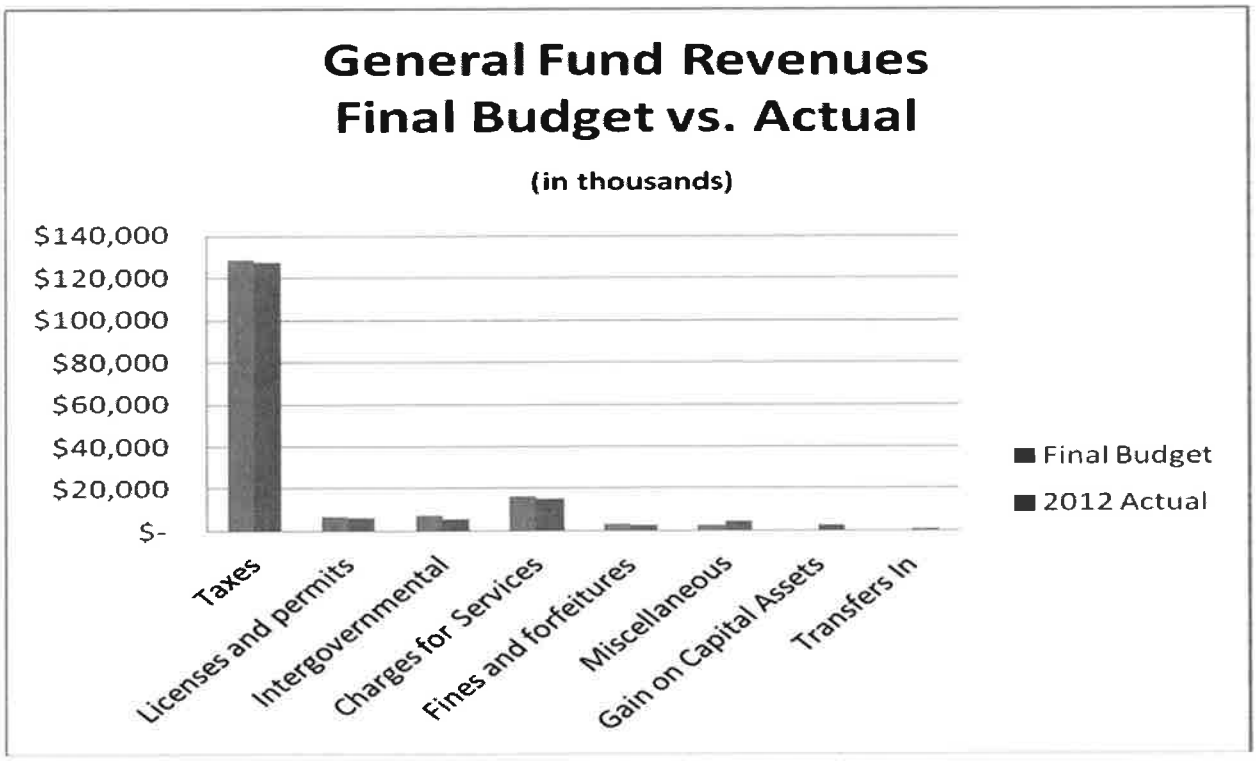
The solid waste fund reported an operating loss of $5.3 million that was due to due to no rate increase during 2012 and on-going cost increases for benefits, materials, and other costs. The City's management and elected officials are strategically balancing the amount of utility expenses that the citizens of Spokane can afford with the need to maintain service delivery, maintain and improve the utility's infrastructure, and provide for growth. Currently, this involves setting utility rate increases to be consistent with the consumer price index and aggressively managing operating expenses.

Budgetary Highlights

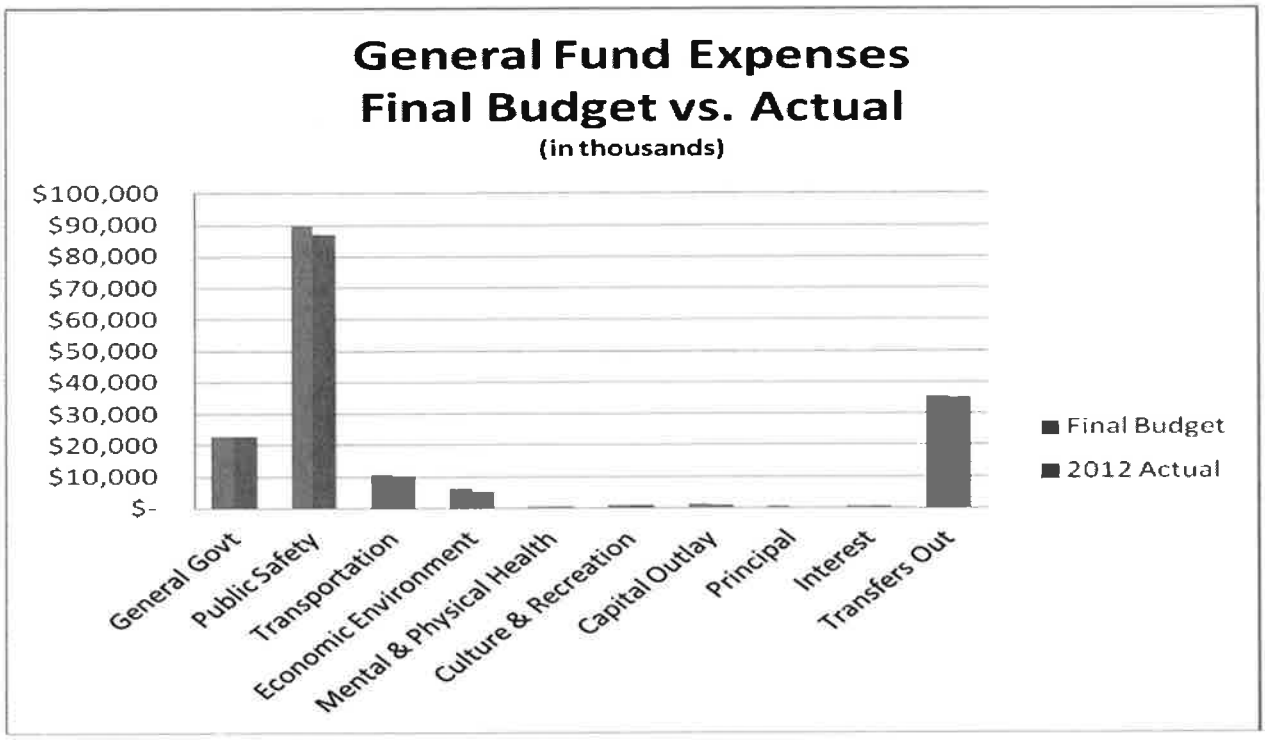
The General Fund – The General Fund's original revenue budget was $1.7 million less than the 2012 actual results. The original expenditure budget was $2.1 million more than the 2012 actual results. For the past several years, the City has strived to develop a budget that limits expenditures to anticipated revenue for the current year. The City Council amended both the revenue and expenditure budgets during 2012; the amendments resulted in a 1% change between the original and final budget for revenues, and a 1.8% change for expenditures.

On the revenue side of the budget, the overall variance between the final budget and actual was less than one-tenth of 1%, although there were differences among the various categories. There was a budget shortfall in taxes of $1.1 million primarily due to negative variances in utility taxes; $1.6 million in intergovernmental due to a delay in completing an Interlocal Agreement with Spokane County related to Law Enforcement Services; and $1.3 million in charges for services from reduced billings to other departments for personnel, legal, real estate, and

engineering. In some cases, lower than anticipated expenses resulted in lower billings. Overall, this negative variance is offset by favorable budget variances of $1.4 million in other areas.



The actual expenditures were approximately $5.1 million less than the final budget, or 3.0% below budget. The largest variances between the final budget and the actual amounts were in the public safety and economic environment categories. There were also positive budget variances in capital outlays and transfers out categories. Generally, these positive variances related to reduced expenditures across most of the general fund, as the City's management and Council recognized the effects of revenue shortfalls and adjusted expenditures accordingly.



As indicated by the budgetary operating statement, the City staff considers the annual budget to be an extremely important document and attempts to include in the budget their best estimate of revenue and expenditures. In 2012, City staff continued to focus on the ongoing structural gap between the rates of growth of revenues versus expenditures in the General Fund, as well as the best way to deal with the ongoing economic reality. The City is also utilizing longer term budgetary projections to help the management and City Council make strategically sound budget decisions.

Capital Assets and Debt Administration

Capital assets

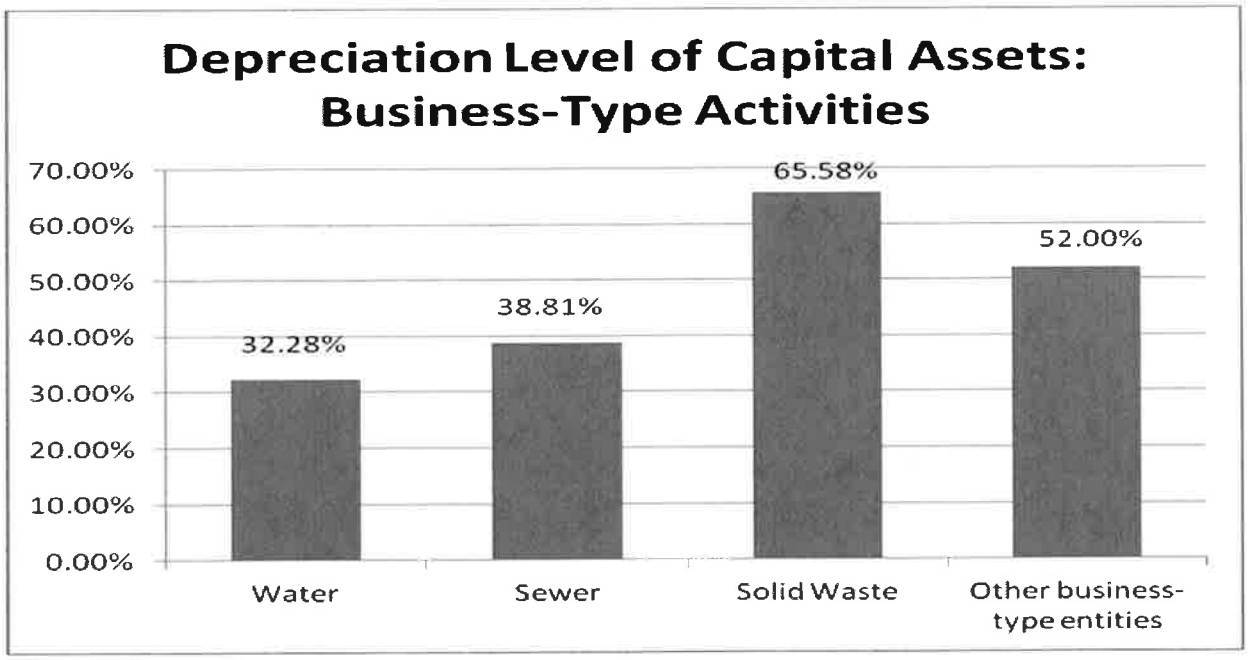
The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2012, was $1,554 million and $615 million respectively. For 2012, there was no significant increase or decrease in the governmental activities, and a 3% increase for business-type activities. This increase is consistent with the year's utility rate increase and the consumer price index (CPI-W). See Note 4 for additional information about changes in capital assets during the fiscal year and amounts outstanding at the end of the year.

The following table provides a summary of capital assets.

Summary of Capital Assets (in thousands)	Governmental Activities 2012	Governmental Activities 2011	Business-Type Activities 2012	Business-Type Activities 2011	Total 2012	Total 2011
NON-DEPRECIABLE ASSETS						
Land	$ 832,257	$ 827,898	$ 15,031	$ 14,919	**$ 847,288**	**$ 842,817**
Construction in progress	68,870	66,381	55,261	51,170	**124,131**	**117,551**
Total non-depreciable assets	901,127	894,279	70,292	66,089	**971,419**	**960,368**
DEPRECIABLE ASSETS						
Buildings	86,648	84,488	288,547	287,432	**375,195**	**371,920**
Other improvements	69,084	66,824	64,641	60,390	**133,725**	**127,214**
Machinery and equipment	93,307	89,637	144,348	127,171	**237,655**	**216,808**
Infrastructure	959,261	950,191	458,121	445,760	**1,417,382**	**1,395,951**
Intangible assets	-	-	114	114	**114**	**114**
Total depreciable assets	1,208,299	1,191,140	955,772	920,867	2,164,071	**2,112,007**
Total cost of capital assets	2,109,427	2,085,419	1,026,064	986,956	3,135,490	**3,072,375**
ACCUMULATED DEPRECIATION	(555,346)	(529,300)	(410,824)	(389,335)	**(966,170)**	**(918,635)**
Total book value of capital assets	$ 1,554,081	$ 1,556,119	$ 615,240	$ 597,621	**$ 2,169,321**	**$ 2,153,740**
Percentage depreciated	46%	44%	43%	42%	**45%**	**43%**

At December 31, 2012 and December 31, 2011, the depreciable capital assets for governmental activities were 44%-46% depreciated.

With the City's business-type activities, 42%-43% of the asset values were depreciated at December 31, 2012 and at December 31, 2011. These percentages indicate that the City is maintaining and replacing their assets at a favorable rate. The percentage of depreciated assets for each of the four enterprise funds that report capital assets is as follows:



Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of $177.8 million. Of this amount, $163.5 million or 92% is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue. The other major component of $12.7 million is supported by pledged revenues generated primarily by the business-type activities of the City (loans from other governments).

During the year, the City retired $13 million or 7% of the beginning outstanding borrowed debt balance.

	Governmental Activities		Business-Type Activities		Total	
Outstanding Borrowings	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
General obligation bonds	$ 163,136,287	$ 173,666,287	$ 453,713	$ 453,713	**$ 163,590,000**	**$ 174,120,000**
Special assessment debt	965,000	1,370,000	-	-	**965,000**	**1,370,000**
Revenue bonds	-	-	520,000	1,005,000	**520,000**	**1,005,000**
Other government/bank loans	1,614,579	1,863,053	11,167,657	11,561,705	**12,782,236**	**13,424,758**
Total	$ 165,715,866	$ 176,899,340	$ 12,141,370	$ 13,020,418	**$ 177,857,236**	**$ 189,919,758**

Long-term debt increased by $.9 million during 2012, which was the result of an additional loan through the State of Washington for Sewer infrastructure. The loan has an interest rate of 2.8% and will be paid off in 2031. The debt per capita for the citizens of the City of Spokane was approximately $847.

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

Economic Conditions Affecting the City

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

Contacting the City's Financial Management

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

Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 40,388,424	$ 13,655,068	$ **54,043,492**
Equity in pooled investments	110,405,755	101,105,146	**211,510,901**
Receivables (net)	29,595,224	29,018,033	**58,613,257**
Internal balances	(8,525,656)	8,525,656	**-**
Inventories	2,427,654	2,497,232	**4,924,886**
Other assets	-	87,151	**87,151**
Restricted Assets:			
Cash and cash equivalents	-	13,532,844	**13,532,844**
Receivables , noncurrent	36,437,285	-	**36,437,285**
Capital Assets (Note 4):			
Non-depreciable assets	901,127,017	70,292,061	**971,419,078**
Depreciable assets, net of depreciation	652,953,533	544,947,929	**1,197,901,462**
Total capital assets, net of depreciation	1,554,080,550	615,239,990	**2,169,320,540**
Total Assets	1,764,809,236	783,661,120	**2,548,470,356**
LIABILITIES			
Accounts/vouchers payable	12,469,831	13,510,441	**25,980,272**
Accrued liabilities	-	-	**-**
Unearned revenue	66,372	38,267	**104,639**
Other liabilities, current	6,447,483	871,424	**7,318,907**
Long term liabilities (Note 9):			
Due within one year	30,206,400	2,072,356	**32,278,756**
Due within more than one year	185,400,412	30,259,472	**215,659,884**
Total Liabilities	234,590,498	46,751,960	**281,342,458**
NET POSITION			
Net investment in capital assets	1,439,428,754	610,788,213	**2,050,216,967**
Restricted for:			
Capital projects	44,367,346	-	**44,367,346**
Debt service	5,641,062	13,470,800	**19,111,862**
Grants/other	39,295,144	-	**39,295,144**
Police and firefighters' pension	266,455	-	**266,455**
Other	60,954	-	**60,954**
Unrestricted	1,159,023	112,650,147	**113,809,170**
Total Net Position	$ 1,530,218,738	$ 736,909,160	$ **2,267,127,898**

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

Statement of Activities
For the Fiscal Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions
Governmental Activities:				
General government	$ 28,091,504	$ 16,753,305	$ 533,127	$ 4,120,706
Judicial	7,450,976	7,384,445	-	-
Public safety	114,360,636	3,494,600	3,303,993	73,485
Transportation	42,310,489	421,004	-	5,900,892
Economic environment	20,302,752	8,075,140	10,177,191	-
Mental and physical health	497,216	(4,745,042)	5,265,523	-
Culture and recreation	37,314,114	3,382,247	-	1,201,602
Interest on long-term debt	8,341,957	-	-	-
Total governmental activities	258,669,644	34,765,699	19,279,834	11,296,685
Business-Type Activities:				
Water	36,869,870	33,935,550	-	1,484,235
Sewer	60,490,266	80,141,623	-	6,001,678
Solid Waste	73,191,663	67,308,473	-	-
Other business-type entities	6,722,545	6,617,177	-	-
Total business-type activities	177,274,344	188,002,823	-	7,485,913
Total government	$ 435,943,988	$ 222,768,522	$ 19,279,834	$ 18,782,598

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

Statement of Activities
For the Fiscal Year Ended December 31, 2012

Functions/Programs	Net (Expense) Revenue and Change in Net Position		
	Governmental Activities	Business-Type Activities	Total
Governmental Activities:			
General government	$ (6,684,366)	$ -	$ **(6,684,366)**
Judicial	(66,531)	-	**(66,531)**
Public safety	(107,488,558)	-	**(107,488,558)**
Transportation	(35,988,593)	-	**(35,988,593)**
Economic environment	(2,050,421)	-	**(2,050,421)**
Mental and physical health	23,265	-	**23,265**
Culture and recreation	(32,730,265)	-	**(32,730,265)**
Interest on long-term debt	(8,341,957)	-	**(8,341,957)**
Total governmental activities	(193,327,426)	-	**(193,327,426)**
Business-Type Activities:			
Water	-	(1,450,085)	**(1,450,085)**
Sewer	-	25,653,035	**25,653,035**
Solid Waste	-	(5,883,190)	**(5,883,190)**
Other business-type entities	-	(105,368)	**(105,368)**
Total business-type activities	-	18,214,392	**18,214,392**
Total government	$ (193,327,426)	$ 18,214,392	$ **(175,113,034)**
General Revenues			
Property taxes	63,450,058	-	**63,450,058**
Sales taxes	41,478,121	-	**41,478,121**
Utility taxes	57,583,982	-	**57,583,982**
Other taxes	12,758,713	-	**12,758,713**
Investment earnings	3,937,849	1,232,002	**5,169,851**
Transfers	17,248	(17,248)	-
Total general revenues and transfers	179,225,971	1,214,754	**180,440,725**
Change in Net Position	(14,101,455)	19,429,146	**5,327,691**
Prior period adjustment	6,648,787	(2,807,351)	**3,841,436**
Net Position - beginning	1,537,671,406	720,287,365	**2,257,958,771**
Net Position - ending	$ 1,530,218,738	$ 736,909,160	$ **2,267,127,898**

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

Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Special Assessment Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 10,145,454	$ 244,180	$ 17,679,448	$ **28,069,082**
Deposits with fiscal agents/trustees	-	-	492,883	**492,883**
Equity in pooled investments	15,615,728	-	56,442,392	**72,058,120**
Taxes receivable	11,441,143	-	3,673,659	**15,114,802**
Special assessment receivable	-	-	2,437,194	**2,437,194**
Accounts receivable	3,189,640	-	5,420,890	**8,610,530**
Interest receivable	211,544	-	21,521	**233,065**
Due from other funds	5,466,581	420,215	2,171,474	**8,058,270**
Interfund loan receivable	162,403	-	714,018	**876,421**
Due from other governments	4,456	-	2,705,808	**2,710,264**
Advances to other funds	816,456	-	3,086,866	**3,903,322**
Inventories	-	-	1,090,995	**1,090,995**
Notes/contract receivable (non current)	245,786	-	36,157,011	**36,402,797**
Total Assets	47,299,191	664,395	132,094,159	**180,057,745**
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts/vouchers payable	1,522,763	1,364,659	5,531,344	**8,418,766**
Due to other funds	1,336,677	1,235,198	2,680,206	**5,252,081**
Due to other governments	-	-	-	**-**
Revenues collected in advance	-	-	1,092,491	**1,092,491**
Interfund loan payable	-	2,961,203	100,000	**3,061,203**
Other accrued liabilities	2,803,249	-	678,485	**3,481,734**
Other current liabilities	941,106	-	1,995,795	**2,936,901**
Deferred revenue	2,185,249	-	2,833,778	**5,019,027**
Total Liabilities	8,789,044	5,561,060	14,912,099	**29,262,203**
Fund Balance				
Nonspendable	978,859	-	3,800,884	**4,779,743**
Restricted for:				
Capital projects	-	-	44,367,346	**44,367,346**
Debt service	-	-	5,641,062	**5,641,062**
Grants/other	704,221	-	38,590,923	**39,295,144**
Police and firefighters' pensions	-	-	266,455	**266,455**
Other	-	-	60,954	**60,954**
Committed	16,015,472	-	16,185,477	**32,200,949**
Assigned	2,974,252	-	8,268,959	**11,243,211**
Unassigned	17,837,343	(4,896,665)	-	**12,940,678**
Total Fund Balance	$ 38,510,147	$ (4,896,665)	$ 117,182,060	$ **150,795,542**

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

Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Funds December 31, 2012

Total Fund Balance of Governmental Funds		**$**	**150,795,542**
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Non-depreciable assets	894,272,115		
Depreciable assets	1,148,541,462		
Less: Accumulated depreciation	(521,393,349)		
Total capital assets			1,521,420,228
Some of the city's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.			6,076,691
Internal service funds used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.			48,405,835
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:			
Bonds payable	(163,136,287)		
Deferred amounts on bond issuance	(4,128,769)		
Special assessment debt	(965,000)		
Due to other governments	(1,614,579)		
OPEB (other postemployment benefits) liability	(10,527,125)		
Accrued interest on bonds	(718,448)		
Compensated absences	(15,389,351)		
Total long term liabilities			**(196,479,559)**
Net Position of Governmental Activities		**$**	**1,530,218,738**

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2012

	General Fund	Special Assessment Construction Fund	Other Governmental Funds	Total
REVENUES				
Taxes	$ 127,794,361	$ -	$ 38,289,588	$ **166,083,949**
Licenses and permits	6,182,420	-	415,911	**6,598,331**
Intergovernmental	5,688,111	-	37,140,051	**42,828,162**
Charges for services	16,234,110	-	11,966,246	**28,200,356**
Fines and forfeitures	2,874,284	-	1,880,797	**4,755,081**
Miscellaneous	5,083,090	323	5,304,151	**10,387,564**
Total Revenues	163,856,376	323	94,996,744	**258,853,443**
EXPENDITURES				
Current:				
General government	22,935,759	-	9,153,694	**32,089,453**
Public safety	86,960,520	-	23,821,986	**110,782,506**
Utilities environment	11,592,841	-	155,731	**11,748,572**
Transportation	78,951	-	20,515,525	**20,594,476**
Economic environment	5,482,533	-	17,951,607	**23,434,140**
Mental and physical health	108,064	-	-	**108,064**
Culture and recreation	8,296,458	-	16,621,478	**24,917,936**
Capital outlays	1,801,778	3,505,994	21,897,178	**27,204,950**
Debt service:				
Principal	-	-	11,183,474	**11,183,474**
Interest	100,902	86,977	8,228,124	**8,416,003**
Total Expenditures	137,357,806	3,592,971	129,528,797	**270,479,574**
Excess of Revenues Over (Under) Expenditures	26,498,570	(3,592,648)	(34,532,053)	**(11,626,131)**
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	2,855,987	-	3,291,872	**6,147,859**
Long term debt issued	-	-	-	**-**
Collection of revolving loans	-	-	-	**-**
Transfers in	129,534	835,846	35,521,127	**36,486,507**
Transfers out	(26,696,808)	-	(9,617,112)	**(36,313,920)**
Total Other Financing Sources (Uses)	(23,711,287)	835,846	29,195,887	**6,320,446**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	2,787,283	(2,756,802)	(5,336,166)	**(5,305,685)**
Other Changes in Fund Balance				
Prior Period Adjustment	(992,165)	(45,320)	(245,285)	**(1,282,770)**
Fund Balance - beginning	36,715,029	(2,094,543)	122,763,511	**157,383,997**
Fund Balance - ending	$ 38,510,147	$ (4,896,665)	$ 117,182,060	$ **150,795,542**

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended December 31, 2012

Change in fund balance - governmental funds		**$**	**(5,305,685)**
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. In the current period, capital outlays exceeded depreciation expense:			
Capital outlays	35,213,358		
Depreciation expense	(30,320,530)		
			4,892,828
In the Statement of Activities, only the loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in fund balance differs from the change in net position by the cost of capital assets sold.			
Capital assets sold	(25,883,541)		
Less accumulated depreciation	6,039,253		
			(19,844,288)
Some revenues in the governmental funds that were not available until the current year were reported in prior years in the Statement of Activities.			(676,730)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liaiblities in the Statement of Net Position. This is the amount payments exceeded proceeds:			
Principal repayments - general obligation debt	10,530,000		
Principal repayments - special assessment debt	405,000		
Principal repayments - due to other governments	248,474		
Bond proceeds	-		
			11,183,474
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.			
(Increase) decrease in OPEB (other postemployment benefit) liability	(2,857,976)		
(Increase) decrease in compensated abscenses	(4,549,535)		
(Increase) decrease in accrued interest	16,093		
(Increase) decrease in deferred amounts on bond issuance	490,391		
			(6,901,027)
Internal service funds are used by management to charge the costs of certain activities such as fleet management and insurance to individual funds. The net gain of internal service funds is reported with governmental activities.			2,549,972
Change in net position of governmental activities		**$**	**(14,101,455)**

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

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-Type Activities - Enterprise Funds					continued
	Water	Sewer	Solid Waste	Other Enterprise Funds	Total	Governmental Activities Internal Service
ASSETS						
Current Assets:						
Cash and equivalents	$ 2,116,405	$ 5,475,255	$ 5,242,077	$ 764,441	$ **13,598,178**	$ 10,925,210
Deposits with fiscal agents	50,915		5,975	-	**56,890**	901,249
Equity in pooled investments	10,716,126	61,083,112	28,716,307	589,601	**101,105,146**	38,347,635
Accounts receivable	2,495,399	8,957,961	7,095,551	64,276	**18,613,187**	472,475
Interest receivable	4,893	17,473	18,959	180	**41,505**	16,894
Due from other funds	610,273	927,027	217,117	128,647	**1,883,064**	3,125,368
Interfund loan receivable	116,592	664,613	453,362	12,728	**1,247,295**	417,236
Due from other governments	-	9,926,062	395,655	41,624	**10,363,341**	-
Inventories	2,308,230	149,018	-	39,984	**2,497,232**	1,336,659
Prepayments	-	-	-	-	**-**	34,488
Equity in pooled investments, restricted	-	-	12,951,673	580,259	**13,531,932**	-
Interest receivable, restricted	-	-	-	912	**912**	-
Total current assets	18,418,833	87,200,521	55,096,676	2,222,652	**162,938,682**	55,577,214
Noncurrent assets:						
Non depreciable capital assets:						
Land	1,921,869	6,725,171	5,094,715	1,289,224	**15,030,979**	6,281,199
Construction in progress	6,242,498	45,647,603	3,370,981	-	**55,261,082**	573,703
Depreciable capital assets:						
Property, plant, and equipment	38,839,556	233,930,241	209,169,964	15,596,863	**497,536,624**	50,537,804
Infrastructure	239,213,245	218,907,894	-	-	**458,121,139**	2,611,218
Capitalized software	-	-	-	-	**-**	6,609,005
Intangible assets	113,766	-	-	-	**113,766**	-
Less accumulated depreciation	(89,793,799)	(175,745,804)	(137,174,069)	(8,109,928)	**(410,823,600)**	(33,952,615)
Total capital assets	196,537,135	329,465,105	80,461,591	8,776,159	**615,239,990**	32,660,314
Other noncurrent assets:						
Other noncurrent assets and deferred charges	-	60,500	26,651	-	**87,151**	-
Advances to other funds	586,146	3,341,216	2,279,193	63,989	**6,270,544**	2,097,576
Total noncurrent assets	197,123,281	332,866,821	82,767,435	8,840,148	**621,597,685**	34,757,890
Total assets	215,542,114	420,067,342	137,864,111	11,062,800	**784,536,367**	90,335,104

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

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-Type Activities - Enterprise Funds					concluded
	Water	Sewer	Solid Waste	Other Enterprise Funds	Total	Governmental Activities Internal Service
LIABILITIES						
Current Liabilities:						
Accounts payable	$ 398,892	$ 4,148,862	$ 4,490,941	$ 85,618	$ **9,124,313**	$ 2,901,659
Claims and judgments payable	-		-	-	-	17,950,549
Compensated absences	117,860	25,155	22,288	28,824	**194,127**	96,951
Due to other funds	1,050,400	3,984,161	1,922,265	59,340	**7,016,166**	798,454
Interfund loan payable	-	-	-	-	-	11,751,192
Due to other governmental units	953,111	3,522,642	-	-	**4,475,753**	-
Accrued interest	40,355	32,713	-	-	**73,068**	-
Other accrued liabilities	280,164	384,223	456,331	75,691	**1,196,409**	390,388
Other current liabilities	627,843	18,254	151,851	73,476	**871,424**	69,418
Total current liabilities	3,468,625	12,116,010	7,043,676	322,949	**22,951,260**	33,958,611
Current liabilities payable from restricted assets:						
Revenue bonds payable	-	-	-	514,961	**514,961**	-
Accrued interest payable	-	-	-	4,166	**4,166**	-
Total current liabilities payable from restricted assets	-	-	-	519,127	**519,127**	-
Noncurrent Liabilities:						
Revenue bonds payable	-	-	-	-	-	-
General obligation bonds payable	-	-	-	453,713	**453,713**	-
Due to other governmental units	6,348,570	3,455,817	-	-	**9,804,387**	-
Revenue collected in advance	-	-	-	38,267	**38,267**	31,545
Compensated absences	1,465,190	1,700,133	1,229,568	314,793	**4,709,684**	1,798,201
Accrued landfill liability	-	-	1,678,396	-	**1,678,396**	-
Accrued landfill postclosure liability	-	-	13,613,291	-	**13,613,291**	-
Total noncurrent liabilities	7,813,760	5,155,950	16,521,255	806,773	**30,297,738**	1,829,746
Total Liabilities	11,282,385	17,271,960	23,564,931	1,648,849	**53,768,125**	35,788,357
NET POSITION						
Net investments in capital assets	189,192,222	333,331,081	80,461,591	7,803,319	**610,788,213**	20,909,122
Restricted			12,951,673	519,127	**13,470,800**	-
Unrestricted	15,067,507	69,464,301	20,885,916	1,091,505	**106,509,229**	33,637,625
Total Net Position	$ 204,259,729	$ 402,795,382	$ 114,299,180	$ 9,413,951	$ **730,768,242**	$ 54,546,747

Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds	6,140,918
Net position of business-type activities	$ 736,909,160

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

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Solid Waste	Other Enterprise Funds	Total	Governmental Activities Internal Service
OPERATING REVENUES						
Charges for goods and services	$ 32,529,732	$ 76,694,956	$ 66,324,016	$ 6,603,744	$ **182,152,448**	$ 40,269,712
Miscellaneous revenue	-	-	429,672	13,433	**443,105**	35,176,194
Other operating revenue	276,212	133,936	-	-	**410,148**	2,774
Total operating revenues	32,805,944	76,828,892	66,753,688	6,617,177	**183,005,701**	75,448,680
OPERATING EXPENSES						
Operations	13,813,375	15,987,564	46,296,500	3,113,841	**79,211,280**	25,364,023
Maintenance	6,890,396	10,431,467	4,784,269	1,087,972	**23,194,104**	-
Administration	2,406,962	3,462,552	2,765,980	1,353,502	**9,988,996**	8,477,939
Depreciation	5,374,824	11,604,984	9,118,701	978,823	**27,077,332**	4,210,370
Taxes	7,755,228	18,317,825	9,136,584	19,153	**35,228,790**	-
Risk transfer payments	-	-	-	-	-	12,866,145
Claims processing	-	-	-	-	-	1,895,750
Payments to claimants and beneficiaries	-	-	-	-	-	27,758,512
Total operating expenses	36,240,785	59,804,392	72,102,034	6,553,291	**174,700,502**	80,572,739
Operating Income (Loss)	(3,434,841)	17,024,500	(5,348,346)	63,886	**8,305,199**	(5,124,059)
NONOPERATING REVENUES (EXPENSES)						
Interest income	110,713	653,332	440,245	27,712	**1,232,002**	409,258
Gain (loss) on disposition of fixed assets	460,894	(15,417)	12,435	-	**457,912**	878,201
Interest expense	(87,195)	(58,912)	-	(82,390)	**(228,497)**	(216,219)
Revenues from jobbing and contracting	914,283	120,627	-	-	**1,034,910**	-
Expenses from jobbing and contracting	(882,911)	(120,627)	-	-	**(1,003,538)**	-
LID losses and engineering expenses	-	(316,789)	-	-	**(316,789)**	-
Rent and lease income	630,760	30,809	180,910	-	**842,479**	-
Other nonoperating revenue	6,580	3,614,128	1,546,586	-	**5,167,294**	41,811
Other nonoperating expense	-		(1,185,146)	-	**(1,185,146)**	-
Total nonoperating revenues (expenses)	1,153,124	3,907,151	995,030	(54,678)	**6,000,627**	1,113,051
Income (loss) before contributions and transfers	(2,281,717)	20,931,651	(4,353,316)	9,208	**14,305,826**	(4,011,008)
Capital contributions	1,484,235	6,001,678	-	-	**7,485,913**	4,370,968
Transfers in	10,990	20,664	-	-	**31,654**	66,565
Transfers out	(8,115)	(11,496)	(10,410)	(18,881)	**(48,902)**	(221,904)
Change in Net Position	(794,607)	26,942,497	(4,363,726)	(9,673)	**21,774,491**	204,621
Prior period adjustment	(86,054)	(2,576,397)	(119,902)	(24,998)	**(2,807,351)**	1,327,233
Net Position - beginning	205,140,390	378,429,282	118,782,808	9,448,622		53,014,893
Net Position - ending	$ 204,259,729	$ 402,795,382	$ 114,299,180	$ 9,413,951		$ 54,546,747

Change in Net Position	**21,774,491**
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds	**(2,345,347)**
Change in net position of business-type activities	$ **19,429,144**

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Solid Waste	Other Enterprise Funds	Total	Governmental Activities Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 33,289,613	$ 78,918,584	$ 67,776,586	$ 6,671,718	**$ 186,656,501**	$ 1,406,430
Receipts from interfund services provided	1,504,623	26,198	10,285	29,227	**1,570,333**	76,083,262
Payments to suppliers for services	(4,194,398)	(6,555,148)	(28,308,155)	(1,050,408)	**(40,108,109)**	(52,559,278)
Payments to employees	(12,792,361)	(15,524,959)	(16,006,149)	(3,391,475)	**(47,714,944)**	(15,998,566)
Payment for taxes - city and state	(7,755,228)	(15,938,427)	(8,013,222)	(17,835)	**(31,724,712)**	(105,337)
Payments for interfund services received	(6,470,608)	(11,655,197)	(12,809,526)	(1,079,643)	**(32,014,974)**	(6,596,109)
Other receipts (payments)	-	(4,466,199)		3,200	**(4,462,999)**	-
Net cash provided (used) by operating activities	3,581,641	24,804,852	2,649,819	1,164,784	**32,201,096**	2,230,402
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in (out)	-	-	-	-	-	(171)
Net cash provided (used) by noncapital financing activities	-	-	-	-	-	(171)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES						
Proceeds from disposal of capital assets	502,462	-	106,661	-	**609,123**	942,550
Proceeds from loans, notes, and lease purchase payable		929,123	-	-	**929,123**	-
Capital grants and contributions received	651,228	3,511,378	-	-	**4,162,606**	-
Acquisition and construction of capital assets	(4,626,676)	(25,646,766)	(11,220,712)	(30,217)	**(41,524,371)**	(9,025,348)
Principal paid on intergovernmental loans	(953,111)	(364,702)	-	-	**(1,317,813)**	-
Principal paid on revenue bonds	-	-	-	(475,275)	**(475,275)**	-
Interest paid on interfund loans	-	-	-	-	-	(216,219)
Interest paid on intergovernmental loans	(93,680)	(49,054)		-	**(142,734)**	-
Interest paid on revenue bonds	-	-	-	(61,760)	**(61,760)**	-
Interest paid on general obligation bonds	-	-	-	(22,691)	**(22,691)**	-
Transfers in (out)	2,874	9,168	(10,410)	(18,881)	**(17,249)**	2,660,078
Net cash provided (used) by capital and related financing activities	(4,516,903)	(21,610,853)	(11,124,461)	(608,824)	**(37,861,041)**	(5,638,939)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(1,609,678)	(28,647,742)	(5,283,240)	(1,196,956)	**(36,737,616)**	(4,205,490)
Proceeds from sales and maturities of investments	2,455,000		14,295,661	1,228,882	**17,979,543**	6,866,814
Interest received	109,819	647,743	487,579	23,519	**1,268,660**	219,903
Net cash provided (used) by investing activities	955,141	(27,999,999)	9,500,000	55,445	**(17,489,413)**	2,881,227
Net increase (decrease) in cash and cash equivalents	19,879	(24,806,000)	1,025,358	611,405	**(23,149,358)**	(527,481)
Cash and cash equivalents - January 1	2,096,526	30,281,256	4,216,719	144,986	**36,739,487**	11,452,691
Cash and cash equivalents - December 31	$ 2,116,405	$ 5,475,256	$ 5,242,077	$ 756,391	**$ 13,590,129**	$ 10,925,210
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating Income (Loss)	$ (3,434,841)	$ 17,024,500	$ (5,348,346)	$ 63,886	**$ 8,305,199**	$ (5,124,059)
Adjustments to Reconcile Operating Income						
Depreciation & amortization	5,374,824	11,604,984	9,118,701	978,823	**27,077,332**	4,210,370
Prior period adjustment	(86,054)	(2,576,397)	(119,902)	(24,998)	**(2,807,351)**	1,327,233
Other revenues	1,551,623	3,765,564	1,727,496	-	**7,044,683**	39,840
Other expenses	(882,911)	(437,416)	(1,185,146)	-	**(2,505,473)**	-
Change in Assets: Decrease (Increase)						
Receivables, net of allowance	627,347	(6,344,756)	(712,488)	48,081	**(6,381,816)**	(318,174)
Deposits with fiscal agents	-	-	5,255	-	**5,255**	90,552
Inventories	19,731	19,165	-	9,917	**48,813**	96,110
Prepayments	-	5,500	-	-	**5,500**	(29,598)
Change in Liabilities: Increase (Decrease)						
Payables	411,922	1,743,708	(835,751)	89,075	**1,408,954**	1,938,128
Net Cash provided (used) by operating activities	$ 3,581,641	$ 24,804,852	$ 2,649,819	$ 1,164,784	**$ 32,201,096**	$ 2,230,402
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES						
Contributions of capital assets	$ 833,007	$ -	$ -	$ -	**$ -**	$ 1,922,400

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

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	Pension and Other Employee Benefit Plans	Private-Purpose Trust Funds	Agency Funds
ASSETS			
Current Assets:			
Cash	$ 657,445	$ 1,262	$ 4,777,388
Equity in pooled investments	-	-	618,624
Short term investments	3,120,121	-	-
Deposits with fiscal agents/trustees	-	-	-
Receivables, pension and other employee benefit plans:			
Interest and dividends	183,853	-	-
Taxes receivable	400,000	-	-
Other receivables	27,098	4,330	335,325
Due from other funds	-	-	-
Due from other governments	-	-	-
Total Current Assets	4,388,517	5,592	5,731,337
Noncurrent Assets:			
Investments, noncurrent, at fair value:			
U.S. fixed income	46,058,862	-	-
International/global fixed income	15,278,019	-	-
U.S. equities	85,820,840	-	-
Real estate	13,128,823	-	-
International equities	46,643,557	-	-
Alternatives	57,626,378	-	-
Total investments	264,556,479	-	-
Capital assets:			
Software	477,000	-	-
Other improvements	17,539	-	-
Accumulated depreciation	(37,005)	-	-
Investments, noncurrent, all other funds:			
Other non current assets	-	-	-
Total Noncurrent Assets	265,014,013	-	-
Total Assets	269,402,530	5,592	$ 5,731,337
LIABILITIES			
Warrants payable	-	-	4,050,727
Accounts/vouchers payable	248,303	1,530	22,212
Due to other funds	-	-	-
Due to other governments	-	-	1,504,342
Compensated absences	35,478	-	1,846
Other accrued liabilities	6,704	-	-
Other current liabilities	29,045	-	77,210
Other long-term liabilities	-	-	75,000
Total Liabilities	319,530	1,530	$ 5,731,337
NET POSITION			
Net asssets held in trust for:			
Pension benefits	256,507,425	-	
Postemployment benefits	12,575,573	-	
Individuals, organizations, and other governments	-	4,062	
Total Net Position	$ 269,082,998	$ 4,062	

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended December 31, 2012

	Pension Trust Funds	Private Purpose Trust Funds	Total
ADDITIONS			
Contributions:	$ -	$ -	$ -
Employer	15,739,238	-	**15,739,238**
Plan Members	7,019,684	-	**7,019,684**
Intergovernmental revenue	225,009	-	**225,009**
Medicare retiree drug subsidy	217,839		**217,839**
Miscellaneous	467		**467**
Private contributions	-	11,201	**11,201**
Total Contributions	23,202,237	11,201	**23,213,438**
Investment Earnings:			
Net increase in fair value of investments	23,041,493	-	**23,041,493**
Interest and dividends	4,316,172	-	**4,316,172**
Total investment earnings (loss)	27,357,665	-	**27,357,665**
Less: Investment expense	(429,407)		**(429,407)**
Net investment earnings (loss)	26,928,258	-	**26,928,258**
Total Additions	50,130,495	11,201	**50,141,696**
DEDUCTIONS			
Benefits	20,985,419	-	**20,985,419**
Medical and dental benefits	5,839,395	-	**5,839,395**
Pension refunds	569,058	-	**569,058**
Medical and dental administration	470,894	-	**470,894**
Administrative expenses	613,749	-	**613,749**
Maintenance costs	-	7,743	**7,743**
Total Deductions	28,478,515	7,743	**28,486,258**
Change in Fiduciary Net Position	21,651,980	3,458	**21,655,438**
Other Changes in Net Position			
Prior Period Adjustment	(1,576)	-	**(1,576)**
Net Position - beginning	247,432,594	604	**247,433,198**
Net Position - ending	$ 269,082,998	$ 4,062	$ **269,087,060**

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

Note 1
Summary of Significant Accounting Policies

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

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

In June 2010, the Governmental Accounting Standards Board (GASB) established the standards of accounting and financial reporting for Fund Balance Reporting with GASB 54. This Statement is effective for periods beginning after June 15, 2010. This statement was designed to provide consistent fund balance classifications among governmental funds and to better understand the constraints imposed on stated fund balances.

A. REPORTING ENTITY

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

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

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

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

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

Spokane School District #81
The voters of the school district elect the governing body and taxes are levied by the school district itself. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

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

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

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

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

The Northeast Public Development Authority was created to invest in community outreach, infrastructure, economic development partnerships, and land development to create business and job opportunities within the northeast development target area. As of December 31, 2012, there were no financial transactions that are reported in the city's financial statements.

The University Public Development Authority was established to cultivate an urban, university district environment favorable to development. As of December 31, 2012, there were no financial transactions that are reported in the city's financial statements.

The Spokane Transportation Benefit District (TBD) was created to make transportation improvements consistent with existing state, regional, and local transportation plans. The financial transactions of the TBD are shown in the *Combining Statement of Changes in Assets and Liabilities, Agency Funds.*

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The city presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These government-wide financial statements report information on all activities of the primary government unit and its component units, if any. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

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

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net position result when constraints are place on net asset use either by external parties or by law through enabling legislation.

- Unrestricted net position consists of amounts that do not meet the definition of the two preceeding categories.

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

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

- Charges to customers for goods and services of the program. A customer is one who directly

benefits from the goods or services or is otherwise directly affected by the program, such as a city resident or taxpayer or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.

- Earning on investments that are restricted to a specific program are also considered program revenues.

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

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

Fund Financial Statements

The City uses 283 accounts that are combined into 185 rollup funds. The city presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds

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

- **Special Assessment Construction Fund** accounts for the construction costs of all special assessment construction projects such as LIDs (Local Improvement Districts).

Major Enterprise Funds

- **Water Fund** accounts for the operation and construction of the water distribution system and the hydroelectric facilities of the city, and accounts for all revenues and expenses incurred in its operation.

- **Sewer Fund** accounts for the operation and construction of the wastewater distribution system and the city's wastewater treatment facility, and accounts for all revenues and expenses incurred in its operation.

- **Solid Waste Fund** is used to account for the collection and disposal of the city's refuse, including curbside and yard waste recycling. The operation of the waste-to-energy facility is also accounted for in this fund.

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

Nonmajor Governmental Funds

- Special Revenue Funds account for the proceeds of specific revenue sources (other than trusts for private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of city programs including the city's street program, parks department, and community development programs.

- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the city's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major city-owned facilities (other than those financed by proprietary funds).

Nonmajor Proprietary Funds

- **Enterprise Funds** account for the city's business type operations for which a fee is charged to external users for goods or services such as golf and building permits.

- **Internal Service Funds** account for the city's risk management, data processing, accounting, utility billing, fleet services, and other services provided by one department to other

departments of the city on a cost-reimbursement basis.

Fiduciary Funds

The city reports the following fiduciary funds:

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

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension trusts, under which trust principal and income benefit individuals, private organizations, or other governments.

- **Agency Funds** account for resources held by the city in a custodial capacity for other governments, private organizations, or individuals.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

The city reports deferred inflows of resources on the balance sheet of its governmental funds under certain conditions. Deferred inflows of resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred inflows of resources also arise when resources are received by the city before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

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

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

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

Excess of Expenditures Over Appropriations

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

Fund	Amount
Traffic Calming	$ 61,837
Parking Meter	5,434
Intermodal Facility Operation	64,954
Community Development	479,348
Emergency Shelter	62,479
Housing Stabilization	25,181
Special Assessment	507,721
Special Assessment Construction	2,162,971
Total	$ 3,369,925

Funds with Deficit Fund Balance/Net Position

The following funds reported deficit fund balance/net position as of December 31, 2012:

Fund	Amount
Special Assessment Construction	4,896,664
Accounting Services	438,808
Total	$ 5,335,472

The Accounting Services Fund deficit is the result of under charging other City funds for actual expenses of the internal service fund. Fiscal year 2012 was the first year of this fund being fully operational and the budgeted allocations to other funds were underestimated. The City plans to fully recover the deficit from the internal customer funds by the end of 2013.

The city uses two distinct funds to account for its special assessment (i.e., local improvement district) transactions. Although the Special Assessment Debt Service fund and the Special Assessment Construction fund are individually presented in the accompanying financial statements and combining statements, they are inherently related. The schedule below is the consolidated activity of both funds as of December 31, 2012 (transactions between these funds have been eliminated).

The consolidated Special Assessment Fund deficit fund balance of $3.3 million results from a timing difference related to short term financing of LID (local improvement district) capital improvements. The fund balance deficit, in part, will be eliminated when the interim progress warrants are replaced with the issuance of special assessment bonds. As of December 31, 2012, $2.2 million in progress warrants have been recorded even though the related special assessment bonds of $1.5 million won't be issued until 2013.

Additionally, the capital assets associated with the LID projects are only reflected in the city's *Statement of Net Position* and are not shown in the governmental fund balance presentation or in the consolidated fund information below.

Consolidated Special Assessment Fund		2012
Assets		
Cash and cash equivalents	$	707,772
Due from other funds		2,437,194
Other assets		646
Total Assets		3,145,612
Liabilities		
Accounts payable	$	1,364,659
Due to other funds		1,235,198
Interfund loan payable		2,961,203
Other liabilities		947,836
Total Liabilities		6,508,896
Total Fund Balance	$	**(3,363,284)**
Total Revenues	$	1,159,369
Total Capital Outlays		3,505,994
Total Expenses		559,352
Net Change in Fund Balance	$	**(2,905,977)**
Fund Balance, Restated Jan 01	$	(457,307)
Net Change in Fund Balance		(2,905,977)
Fund Balance, Dec 31	$	**(3,363,284)**

D. BUDGETARY INFORMATION

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

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

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

1. Prior to November 1, the Mayor submits to the City Council a preliminary budget and budget message and files it with the City Clerk.

2. Public hearings are conducted to obtain taxpayers comments.

3. Prior to January 1, the budget is legally adopted through passage of an ordinance. The City is required by state law to adopt a balanced budget.

4. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the City Council.

5. A comparison of budget to actual is used as a management control device during the year for all funds.

6. The expenditures of a given fund may not legally exceed its appropriations.

7. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

8. The level of control for adopted budgets is at the fund level.

9. Any unexpended appropriation balances automatically lapse at year-end.

Encumbrances

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

E. ASSETS, LIABILITIES, AND NET POSITION

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012, the Treasurer was holding $56.2 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General Fund. Cash and equivalents includes cash on hand, cash in banks, and petty cash funds.

2. Pooled Investments

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

3. Receivables

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

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *Interfund Loans Receivable*, *Advances to Other Funds*, *Interfund Loan Payable* or *Due To/From Other Funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

5. Inventories

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

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

6. Restricted Assets

The proceeds of enterprise fund revenue bonds, as well as other resources, are restricted by applicable bond ordinances for construction costs and debt service payments. The current portion of related liabilities is shown as Payables from Restricted Assets. Owners and operators of Solid Waste Landfill units are required under the Washington Administrative Code to establish financial assurance for closure and post-closure monitoring of those units. Specific reserve requirements are described in Note 12, Enterprise Fund Disclosures.

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

Nature of Restricted Assets	Amount
Equity in Pooled Investments - Debt Service	$ 580,259
Equity in Pooled Investments - Landfill Liability	12,951,673
Interest Receivable - Debt Service	912
Total	$ 13,532,844

7. Other Noncurrent Assets

Other Long-Term Assets includes long-term Contracts Receivables in the Sewer fund and Other Long-Term Assets in the Solid Waste fund. See

Note 13, Enterprise Fund Disclosures for a description of noncurrent assets.

8. Deferred Charges

Deferred charges include the preliminary costs of projects, landfill closure costs, unamortized bond issuance costs, and other costs incurred by the enterprise funds, which will be recovered by future rates. These include the accounts of Deferred Landfill Closure Charges, and Other Deferred Charges.

9. Capital Assets (see Note 4)

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

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

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

10. Compensated Absences

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

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

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

11. Long-Term Liabilities (See Note 9)

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

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

12. Deferred Revenue

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

13. Governmental Fund Balance

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

- **Nonspendable.** Balances that either are not in a spendable form or are legally or contractually required to remain intact.
- **Restricted.** Balances that are restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments.
- **Committed.** Balances that can only be used for specific purposes pursuant to constraints imposed formal action of the government's highest level of decision-making authority. For the city, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.
- **Assigned.** Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned.** Residual balances that are not constrained in the other classifications.

For purposes of fund balance classification, when both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources are used, committed resources are used first followed by assigned and unassigned resources respectively.

The detail of the governmental funds committed and assigned fund balances at December 31, 2012 are shown below:

Committed Fund Balance	General Fund	Nonmajor Governmental Funds	Total
Contingency Reserve/Revenue Stc	$ 15,486,601	$ -	$ 15,486,601
General government	-	621,404	621,404
Security of persons & property	-	10,781,122	10,781,122
Utilities Environment	-	-	-
Physical environment	518,785	1,080,448	1,599,233
Economic environment	10,086	-	10,086
Mental and physical health	-	-	-
Culture and recreation	-	3,702,503	3,702,503
Total	$ 16,015,472	$ 16,185,477	$ 32,200,949

Assigned Fund Balance	General Fund	Nonmajor Governmental Funds	Total
General government	$ 2,034,822	$ 212,753	$ 2,247,575
Security of persons & property	-	656,706	656,706
Utilities Environment	-	-	-
Physical environment	-	5,523,089	5,523,089
Economic environment	536	1,156,030	1,156,566
Mental and physical health	-	-	-
Culture and recreation	938,894	720,381	1,659,275
Total	$ 2,974,252	$ 8,268,959	$ 11,243,211

14. Budgetary Reserves/Control

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

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

1. Unforeseen circumstances arising after the adoption of the annual budget which require an unavoidable and non-continuing allocation; or

2. Unforeseen emergency threatening health and/or safety of the citizens; or

3. Unanticipated non-continuing expenses are needed to fulfill an unfunded legislative mandate; or

4. Significant operating efficiencies can be achieved resulting in clearly identified near-tem and offsetting cost savings. Appropriations from this account are only approved by the standard emergency budget ordinance procedure.

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

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

1. Revenue shortfall results from revenue collections considered to be materially short of the amount budgeted, or the revenue shortfall results from projected baseline (existing) budgeted revenues for any ensuing year increasing by less than the assumed long-term revenue growth rate in the City's six-year general fund projection for the immediate year; and

2. The revenue shortfall is expected to persist through the end of the fiscal year; and

3. The revenue shortfall is reasonably expected to persist for a period no longer than three years. A revenue shortfall expected to persist beyond three years shall be directly addressed in the current annual budget process through long-term budget measures.

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

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

15. Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end in the General Fund have been classified as assigned fund balance. Encumbrances for all other governmental funds have been classified as restricted or assigned fund balance.

Encumbrances as of December 31, 2012 were as follows:

Encumbrances	Amount
General Fund	$ 1,787,530
Special Assessment Construction Fund	368,160
Nonmajor Governmental Funds	14,103,257
Total	$ 16,258,947

F. Other Significant Accounting Policies

Budgeting, Accounting and Reporting System (BARS)

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

Note 2

Deposits and Investments

A. Deposits and Investments for the City of Spokane

The City has the authority to invest in both pooled investments (Treasurer's Cash Investments) and fund investments. The Chief Financial Officer has the authority to determine the availability of funds for both pooled and fund investments and takes into consideration such needs as requests of individual fund managers, current cash needs, lead time, minimum investment amount and maturities necessary to avoid sacrifice of interest earnings. Interest earnings on Treasurer's Cash Investments are credited to the General Fund.

Deposits

At year end the carrying amount of the City's deposits was $279,861,491. These deposits consisted of money market accounts at banks, bank savings, amounts deposited with Washington State's Local Government Investment Pool (LGIP) and checking accounts. All of these deposits are entirely insured by pledged collateral on deposit with the Washington State Public Deposit Protection Commission. Effective October 3, 2008, the basic limit on federal deposit insurance coverage was increased to $250,000 per depositor.

Credit Risk

The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category one risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

Custodial Credit Risk

Per GASB 40 guidelines the LGIP balances are also not subject to custodial credit risk. The Washington Public Deposit Protection Commission provides security for public treasurers by protecting public deposits which exceed the amount insured by the FDIC. Total deposits by a single treasurer may not exceed the depositary's Washington proportional net worth. A public depositary may accept public deposits in total not to exceed one and one-half times its Washington proportional net worth or thirty percent of total public funds on deposit statewide. If a depositary's public fund deposits exceed either of these limitations, it must collateralize excess deposits at one hundred percent. In addition, a depositary must meet certain financial standards set by the Commission. Any public depositary which does not comply with these financial standards is required to collateralize all of its public deposits at one hundred percent.

Interest Rate Risk

The Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days.

Investments

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

Fund		Amount
U.S. government agencies	$	251,257,076
Local improvement district progress payments		1,485,031
Property acquisition fund bonds		11,791,762
Consolidated local improvement district bonds		1,481,134
Total	$	266,015,003

The weighted average maturity of the U.S. agency investments is 4.19 years. Progress warrants are issued in payment for construction projects for the City's local improvement districts. The warrants are interest bearing and are redeemed once long term bonds are issued following completion of the projects. All warrants are claims and liens against the local improvement fund.

B. Deposits and Investments for the Spokane Employees' Retirement System (SERS)

Deposits

The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to $250,000 per member of the System. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of $100,000.

Deposit Type	Value
Cash held by Treasurer	$ 88,961
Short term investments	1,066,731
Total	$ 1,155,692

Investments

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

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

In 2007, the Board approved a new asset allocation, which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued into 2012. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe that the use of alternative investments is a prudent approach to managing risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. Although the SERS' Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. SERS' fixed income assets are comprised of four mutual funds, which are non-rated. The fair market value of the mutual funds is $38.6 million as of December 31, 2012.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution or bank failure, the System would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, Deposit and Investment Risk Disclosures guidelines, the System does not have exposure to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

Interest Rate Risk

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The following table shows the System's fixed income assets by investment type, market value and average effective maturity as of December 31, 2012. The portfolio contains additional investments of $203 million for a total portfolio of $241.8 million.

		Average Effective Maturity			
Investment Type	Total Market Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Mutual funds					
PIMCO Low Duration	$ 7,469,124	$ -	$ 7,469,124	$ -	$ -
Vanguard Short Term	7,538,068	-	7,538,068	-	-
PIMCO Global	13,595,314	-	-	13,595,314	-
Metropolitan West	10,023,421	-	-	10,023,421	-
Total	$ 38,625,927	$ -	$ 15,007,192	$ 23,618,735	$ -
Percentage	100.0%	0.0%	38.9%	61.1%	0.0%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2012, 21.0% of the System's portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is $60.2 million as of December 31, 2012. Additionally, SERS has $13.6 million invested in an international/global fixed income fund, of which 43.2% is foreign fixed income holdings at December 31, 2012. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of the fund managers.

C. Deposits and Investments for the Spokane Firefighters' Trust Fund

Schedule of Credit Risk

		Investment Type			
Investment Type	Total Market Value	AAA	A	A	BBB
U.S. government treasuries	$ 5,176,896	$ -	$ 5,176,896	$ -	$ -
U.S. government agencies	-	-	-	-	-
Mortgage backed governmental pass through	2,713,020	-	2,713,020	-	-
Governmental CMOs	2,587,085	-	2,587,085	-	-
Corporate notes and bonds	11,400,309	-	926,553	7,344,149	3,129,607
Asset backed securities	833,644	-	649,318	184,326	-
Total	$22,710,954	$ -	$12,052,872	$ 7,528,475	$ 3,129,607
Percentage	100.0%	0.0%	53.1%	33.1%	13.8%

Schedule of Interest Rate Risk

		Maturity			
Investment Type	Total Market Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government treasuries	$ 5,176,896	$ 939,746	$ 3,070,365	$ 1,166,785	$ -
U.S. government agencies	-	-	-	-	-
Mortgage backed governmental passthrough	2,713,020	-	164,200	1,776,962	771,858
Governmental CMOs	2,587,085	-	374,251	1,349,236	863,598
Corporate notes and bonds	11,400,309	61,650	8,473,035	2,865,624	-
Asset backed securities	833,644	-	-	833,644	-
Total	$22,710,954	$ 1,001,396	$12,081,851	$ 7,992,251	$ 1,635,456
Percentage	100.0%	4.4%	53.2%	35.2%	7.2%

Note 3
Property Taxes

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

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

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to $3.60 per $1,000 of assessed valuation for general governmental services. The City's regular levy for 2012 was $2.92 per $1,000 on an assessed valuation of $14,700 million, for a total regular levy of $42.9 million. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Special levies approved by the voters are not subject to the limitations listed above. For 2012, the total levy for Emergency Medical Services was $7.35 million.

Note 4
Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Capital Assets	Jan 01, 2012 Beginning Balance	Increases	Decreases	Dec 31, 2012 Ending Balance
GOVERMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	$ 827,897,562	$ 6,282,190	$ (1,922,414)	$ 832,257,338
Library collections	-	-	-	-
Construction in progress	66,381,579	8,190,894	(5,702,794)	68,869,679
Total capital assets, not being depreciated	894,279,141			901,127,017
Capital assets, being depreciated:				
Buildings	84,487,628	247,565	1,912,801	86,647,994
Accumulated depreciation	(32,132,616)	(1,996,622)	(301,707)	(34,430,945)
Net buildings	52,355,012			52,217,049
Other improvements	66,823,516	8,531,936	(6,271,600)	69,083,852
Accumulated depreciation	(16,809,974)	(4,016,830)	-	(20,826,804)
Net other improvements	50,013,542			48,257,048
Machinery and equipment	89,637,311	10,097,173	(6,427,657)	93,306,827
Accumulated depreciation	(57,173,153)	(5,976,608)	3,628,648	(59,521,113)
Net machinery and equipment	32,464,158			33,785,714
Infrastructure	950,191,447	18,147,461	(9,078,083)	959,260,825
Accumulated depreciation	(423,183,932)	(21,823,923)	4,440,754	(440,567,101)
Net infrastructure	527,007,515			518,693,724
Total Capital assets, being depreciated (net)	661,840,227			652,953,535
Governmental Activities, Capital Assets (net)	$ 1,556,119,368			$ 1,554,080,552

Capital Assets	Jan 01, 2012 Beginning Balance	Increases	Decreases	Dec 31, 2012 Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	$ 14,919,425	$ 111,554	$ -	$ 15,030,979
Construction in progress	51,170,016	33,606,827	(29,515,761)	55,261,082
Total capital assets, not being depreciated	66,089,441			70,292,061
Capital assets, being depreciated:				
Buildings	287,432,246	1,114,975	-	288,547,221
Accumulated depreciation	(156,132,570)	(9,093,655)	-	(165,226,225)
Net buildings	131,299,676			123,320,996
Other improvements	60,390,216	4,251,156	-	64,641,372
Accumulated depreciation	(25,286,268)	(2,840,994)	-	(28,127,262)
Net other improvements	35,103,948			36,514,110
Machinery and equipment	127,170,818	22,680,600	(5,503,390)	144,348,028
Accumulated depreciation	(75,163,501)	(7,964,627)	5,369,704	(77,758,424)
Net machinery and equipment	52,007,317			66,589,604
Infrastructure	445,759,442	12,598,327	(236,630)	458,121,139
Accumulated depreciation	(132,684,473)	(7,175,779)	219,098	(139,641,154)
Net infrastructure	313,074,969			318,479,985
Intangible assets	113,766	-	-	113,766
Accumulated amortization	(68,259)	(2,275)		(70,534)
Net intangible assets	45,507			43,232
Total Capital assets, being depreciated (net)	531,531,417			544,947,927
Business-Type Activities, Capital Assets (net)	$ 597,620,858			$ 615,239,988

DEPRECIATION	
Governmental Activities:	
General government	$ 1,122,686
Public safety	4,056,456
Utilities environment	-
Transportation	23,260,260
Economic environment	660,365
Mental and physical health	416,241
Culture and recreation	5,014,892
Total Depreciation Expense - Governmental Activities	34,530,900
Business-Type Activities:	
Water	$ 5,374,824
Sewer	11,604,984
Solid Waste	9,118,701
Other	978,823
Total Depreciation Expense - Business-Type Activities	27,077,332

Note 5
PENSION PLANS

The City participates in four retirement and pension plans:

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

SERS and the Firefighters' and Police Relief and Pension plans are single-employer defined benefit pension plans. The Law Enforcement Officers' and Fire Fighters' (LEOFF) system is a contributory multi-employer cost-sharing system operated by the State of Washington.

State and local governmental employers, with some exceptions, are required to measure and disclose an amount for annual pension cost in accordance with the standards described by GASB Statement 27 (Accounting for Pensions by State and Local Governments) and GASB 50 (Pension Disclosures). The methods and assumptions required for financial reporting are the same methods and assumptions used in determining a plan's funding requirement, and are described in the publicly available actuarial reports for the three pension plans administered by the City of Spokane. Those reports may be obtained by writing to the Retirement Department, City Hall, 808 West Spokane Falls Blvd, Suite 604, Spokane, Washington, 99201, or by calling (509) 625-6330.

The annual pension costs for the LEOFF system are determined in accordance with GASB Statements 25 and 27.

Spokane Employees' Retirement System

Plan Description

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

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

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the Washington State Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). At December 31, 2012, membership included:

Employees' Retirement System	
Retirees and Beneficiaries Receiving Benefits	1,128
Terminated Members Entitled To But Not Yet Receiving Benefits	96
Active Plan Members	1,453
Total	2,677

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008 who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009 who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 70.0%. Employees hired prior to January 1, 2009, have a choice at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. In addition, the normal retirement age for the Plan is

62. For either group, benefits may be reduced according to the retirement annuity option selected.

Summary of Significant Accounting Policies

Basis of accounting

SERS reports in accordance with the provisions of Governmental Accounting Standard Board (GASB) Statement 25 (Financial Reporting for Defined Benefit Pension Plans) as amended by GASB Statement 50 (Pension Disclosures). The financial reporting framework for defined benefit pension plans required by GASB Statement 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Investments

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

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

No investments were made in loans to or leases with any Spokane Employees' Retirement System official, government employer official, or party related to a Spokane Employees' Retirement System official.

Commitments

As of December 31, 2012, the System had unfunded commitments of $6.9 million to three limited partnership real estate funds and one limited liabilities company royalties investment fund.

Contributions

Member and employer contribution rates are established by SMC, Chapter 4.14. The funding of SERS is currently based on the entry age normal method. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 7.75% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 7.75% of eligible compensation for a combined total of 15.50%. It is contemplated that the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth. Contributions from employees and the employer were $13.9 million in 2012 and $13.6 million in 2011.

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

Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2012, the actuarial liability funded ratio is 66.2%, a decrease from 68.8% as of December 31, 2011. The funded ratio is the ratio of the actuarial value of assets to the actuarial liability. The actuarial value of assets recognizes market gains and losses over a period of five years. The 2012 decrease in the funded status is primarily attributable to actuarial smoothed losses from 2008 exceeding actuarial smoothed gains over the five year time period 2008 through 2012 (refer to the Asset Valuation Method in the table below). For historical information on the funded ratio and other actuarial funding data, refer to the Schedule of Funding Progress in the Required Supplemental Information which follows the notes to the financial statements. A summary of actuarial methods and assumptions follows:

[1]0% for members with more than 5 years of service in years 2013, 2014 and 2015. Otherwise, ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of service.

[2]The total contribution rate is fixed at 15.50% of payroll (7.75% for the employer and 7.75% for the employee). The annual required contribution has been developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

[3]The SERS Board can grant an ad-hoc performance adjustment under the following conditions: (1) if the actuarial accrued liability (AAL) funded ratio is more than 90%; (2) if the AAL associated with the ad-hoc increase does not cause the AAL funded ratio to drop below 90%; and (3) the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad-hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in City of Spokane Municipal Code 03.05.160.

Pension Funding Status (In thousands)	Employees' Retirement System
Actuarial value of plan assets	$ 241,425
Actuarial accrued liability (AAL)[3]	364,716
Unfunded actuarial accrued liability (UAAL)	123,291
Funded ratio	66.2%
Covered payroll	89,015
UAAL as a percentage of covered payroll	138.51%

Firefighters' Pension Fund and Police Relief and Pension Fund of the City of Spokane

The City of Spokane Firefighters' Pension Fund and Police Relief and Pension Fund (Police and Firefighters' Plans) are single-employer defined benefit pension funds established and administered by the City in accordance with the requirements of the Revised Code of Washington.

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

Both retirement plans provide death, disability, and medical benefits. There are 2 active police officers and 7 active firefighters covered under these plans as of December 31, 2012. In addition, there are 232 police and 291 firefighter retirees and beneficiaries receiving benefits from the two plans.

The City is responsible for the medical expenses for active and retired employees covered under these plans. For the Police Relief and Pension Fund, all benefits are funded on a pay-as-you-go basis. The Firefighters' Pension Fund is partially funded with $25.3 million in total net assets.

Summary of Significant Accounting Policies

Basis of accounting
The Police and Firefighters' Plans report in accordance with the provisions of Governmental Accounting Standard Board (GASB) Statement 25 (Financial Reporting for Defined Benefit Pension Plans) as amended by GASB Statement 50 (Pension Disclosures). The financial reporting framework for defined benefit pension plans required by GASB Statement 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due. During the plan year ended December 31, 2007, the City of Spokane adopted GASB Statement 43 and 45 which relate to other post-employment benefits (OPEB).

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions, if required, are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned.

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

The investments of the Firefighters' Pension Fund are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan.

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

Actuarial Information and Significant Actuarial Assumptions
An actuarial valuation report of both plans was performed as of December 31, 2012. For the Firefighters' Pension fund, both a cash flow projection and an actuarial funding plan to liquidate any unfunded liabilities are presented by the actuary; however, for the Police Relief and Pension Fund the actuary only presents a cash flow projection. The city uses these projections to budget annual amounts to provide funds for these benefits. Actual expenditures may be greater or less than budgeted amounts. Actual expenditures may also differ from the Annual Required Contribution (ARC).

As of December 31, 2012, the actuarial liability pension funded status ratio is 49%, which increased 1 percentage point from December 31, 2010. Refer to the Schedule of Funding Progress, which follows the notes to the financial statements, in the Required Supplemental Information historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Firefighters' Pension	
Valuation date	12/31/2012
Actuarial cost method	Entry age normal
Amortization method	Level percent
Funding	30-year, closed as of January 1, 2007
Amortization period	30 years - closed (25 years remaining amortization period)
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return	4.0%
Projected salary increases	2.5%
Inflation	2.5%
Cost of living adjustments	Based upon 3.5% increase assumption when appropriate, for FPF benefits. Based upon inflation assumption for some FPF benefits and all LEOFF benefits.

Police Relief and Pension Fund
As of December 31, 2012, the actuarial liability pension funded status ratio is 6%, which is no change from December 31, 2010. Refer to the Schedule of Funding Progress, which follows the notes to the financial statements, in the Required Supplemental Information historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Police Pension	
Valuation date	12/31/2012
Actuarial cost method	Entry age normal
Amortization method	Level percent
Funding	30-year, closed as of January 1, 2007
Amortization period	30 years - closed (25 years remaining amortization period)
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return	3.0%
Projected salary increases	2.5%
Inflation	2.5%
Cost of living adjustments	Based upon 3.5% increase assumption when appropriate, for PPF benefits. Based upon inflation assumption for some PPF benefits and all LEOFF benefits.

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

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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

Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members NonVested	Total Members
LEOFF	9,947	656	13,942	3,113	27,658

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

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

Actual Contribution Rate	Employer[1]	Employee	State
LEOFF 1	0.16%	0.00%	N/A
LEOFF 2	5.24%	8.46%	3.38%

[1] The employer rate includes the employer administrative expense fee currently set at 0.16%.

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

Actual Contributions	2012	2011	2010
LEOFF 1	1,853	2,343	2,860
LEOFF 2	2,717,510	2,801,443	2,573,893

Note 6
Other Postemployment Benefits

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

Plan Description

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

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

Both plans provide death, disability and medical benefits. There are 2 active police officers and 7 active firefighters covered under these plans as of December 31, 2012. In addition, there are 242 police and 302 firefighter retirees and beneficiaries receiving benefits from the two plans.

The City is responsible for the medical expenses for active and retired employees covered under these plans. For the Police OPEB Plan, all benefits are funded on a pay-as-you-go basis. The Firefighters' OPEB Plan is partially funded with $25.1 million in total net assets.

Funding Policy

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

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

Funded Status (In thousands)	Firefighters' OPEB	Police OPEB
Actuarial valuation date	12/31/2012	12/31/2012
Actuarial value of plan assets	$ 12,576	$ -
Actuarial accrued liability (AAL)	62,779	73,197
Unfunded actuarial accrued liability (UAAL)	50,203	73,197
Funded ratio	20%	0%
Covered payroll	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A

Annual Required Contribution

	Firefighter's Pension OPEB		2012	2011	2010
1	Annual normal cost, beginning of year		$ 172,224	$ 172,224	$ 247,663
2	Amortization of UAAL, beginning of year		4,643,319	4,643,319	3,857,666
3	Interest through end of year	=((1+2)*i)	240,777	240,777	205,266
4	Annual required contribution	=(1+2+3)	5,056,320	5,056,320	4,310,595
5	Interest on net OPEB obligation		2,175		
6	Adjustment to annual required contribution		(2,939)		
7	Annual OPEB cost	=(4+5-6)	5,055,556	5,056,320	4,310,595
8	Employer contributions		(5,099,046)	(5,012,830)	(4,310,595)
9	Change in net OPEB obligation	=(7+8)	(43,490)	43,490	-
10	Net OPEB obligation at beginning of year		43,490	-	-
11	Net OPEB obligation at end of year	=(9+10)	-	43,490	-
12	Percentage funded	=(8/7)	101%	99%	100%

	Police Pension OPEB		2012	2011	2010
1	Annual normal cost, beginning of year		$ 171,760	$ 171,760	$ 123,916
2	Amortization of UAAL, beginning of year		5,478,797	5,478,797	4,272,759
3	Interest through end of year	=((1+2)*i)	226,022	226,022	175,867
4	Annual required contribution	=(1+2+3)	5,876,579	5,876,579	4,572,542
5	Interest on net OPEB obligation		305,026	187,987	143,732
6	Adjustment to annual required contribution		(469,359)	(282,737)	(211,586)
7	Annual OPEB cost	=(4+5-6)	5,712,246	5,781,829	4,504,688
8	Employer contributions		(2,810,780)	(2,855,843)	(3,398,327)
9	Change in net OPEB obligation	=(7+8)	2,901,466	2,925,986	1,106,361
10	Net OPEB obligation at beginning of year		7,625,659	4,699,673	3,593,312
11	Net OPEB obligation at end of year	=(9+10)	10,527,125	7,625,659	4,699,673
12	Percentage funded	=(8/7)	49%	49%	75%

Actuarial Information and Significant Actuarial Assumptions

The actuarial assumptions are intended to estimate the future experience of the members of the above mentioned plans. The turnover assumptions were based on the 2001 – 2006 Experience Study for the Law Enforcement Officers' and Firefighters Retirement System prepared by the Office of the State Actuary. Any variations in future experience from that expected under these assumptions will result in corresponding changes in the estimated costs of the Systems' benefits.

Actuarial Methods and Assumptions	Firefighters' OPEB	Police OPEB
Valuation date	12/31/2012	12/31/2012
Actuarial cost method	Entry age normal	Entry age normal
Amortization method		
Funding	30 years	30 years
Remaining amortization years (closed)	25 (January 1, 2007)	25 (January 1, 2007)
Asset valuation method	Fair market value	Fair market value
Actuarial assumptions		
Investment rate of return	4.0%	3.0%

Note 7
Risk Management

The City is self-insured for Unemployment Insurance, Workers' Compensation, General Liability, and Medical/Dental benefits. Unrestricted net position (assets less liabilities) in the self-insurance funds as of December 31, 2012 and 2011 are as follows:

Fund	2012	2011
Risk Management	$ 735,840	$ 4,827,214
Workers' Compensation	1,686,076	2,762,175
Unemployment Insurance	1,045,959	1,115,041
Employee Benefits	11,859,908	9,830,276
	$ 15,327,783	$ 18,534,706

The City carries the following excess insurance coverages.

Workers' Compensation: The City carries statutory limits for excess Workers' Compensation insurance above its self-insured retention of $1,000,000.

General and Automobile Liability: The City carries $10 million excess general and automobile liability insurance above its self-insured retention of $1,000,000.

Property/Boiler and Machinery: The City carries $100 million loss limit for all risk property insurance and carries boiler and machinery insurance, with a deductible of $10,000, and coverage up to $100 million loss limits. The City also carries property coverage for its hydro dam in the amount of $100 million, with a $1 million self-insured retention, and property coverage of the River Park Water Reclamation Facility in the amount of $246.2 million, with a $1 million self-insured retention. In addition, the hydro dam and the River Park Water Reclamation Facility have boiler and machinery coverage up to $1 million, with a $100,000 deductible, under the City's Boiler and Machinery policy.

Claims Liability Valuation

In 2012 the City conducted an actuarial review to determine the estimated claims liability for the Risk Management and Workers' Compensation funds. The estimated loss reserves are for the Risk Management fund totaled $6.7 million and the Workers' Compensation fund totaled $8.8 million. The Employee Benefits fund reported IBNR (incurred but not reported) claims of $1.8 million for 2012. Claims expenses are recognized in the Employee Benefits and the Unemployment Insurance funds for claims processed through the fiscal year end. No IBNR claims are reported in the Unemployment Insurance Fund. All self-insured funds are responsible for collecting interfund premiums and for paying claims settlements. Interfund premiums are assessed on the basis of exposure and claims experience and are reported as revenues and expenses.

Changes in the balances of claims liabilities during the past two years are as follows:

Risk Management	2012	2011
Balance, January 1, 2012	$ 5,469,062	$ 4,288,493
New claims incurred	1,061,195	2,018,040
Adjustments for prior claims	3,260,666	757,618
Claims payable	(4,915,501)	(1,595,089)
Balance, December 31, 2012	$ 4,875,422	$ 5,469,062

Workers' Compensation	2012	2011
Balance, January 1, 2012	$ 4,159,257	$ 3,834,779
New claims incurred	1,515,117	1,640,546
Adjustments for prior claims	2,260,948	2,012,660
Claims payable	(3,007,516)	(3,328,728)
Balance, December 31, 2012	$ 4,927,806	$ 4,159,257

Note 8

Short-Term Debt

At December 31, 2012, the City had $1.4 million of local improvement district (LID) progress warrants outstanding. As construction is done on LID projects, progress warrants are issued to contractors. The city treasurer disburses funds to the contractors and carries the progress warrants as treasurer's cash investments. When special assessment bonds are sold, the progress warrants are redeemed. The current progress warrants have interest rates ranging from 2.29% to 4.47%. A summary of progress warrant activity for 2012 follows:

Progress Warrants	2012
Balance, January 1, 2012	$ 360,846
Progress warrants issued	1,485,030
Progress warrants redeemed	(379,717)
Balance, December 31, 2012	**$ 1,466,159**

Note 9
Long-Term Liabilities

A. Long Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was $226,301,000.

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

General obligation bonds currently outstanding at December 31, 2012 are as follows:

Name of Issue	Purpose	Interest Rate	Debt Outstanding
LTGO 2003A	Governmental Activities	2.75% - 5.00%	$ 1,290,000
LTGO 2003B	Governmental Activities	1.50% - 5.25%	6,980,000
UTGO 2004	Governmental Activities	3.00% - 5.25%	8,030,000
LTGO 2005A	Governmental Activities	5.00%	2,855,000
LTGO 2005A RFD	Refunding - Governmental & Business-Type Activities	5.00%	2,865,000
LTGO 2005B	Governmental Activities	4.34% - 5.34%	19,895,000
UTGO 2005	Refunding - Governmental Activities	3.00% - 4.00%	2,710,000
UTGO 2007	Governmental Activities	4.00% - 5.00%	41,135,000
UTGO 2008	Governmental Activities	3.50% - 5.00%	36,985,000
UTGO 2010A	Governmental Activities	2.00% - 6.13%	40,845,000
Total general obligation bonds			$ 163,590,000

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

Governmental Activities			
Year	Principal	Interest	Total
2013	$ 10,600,000	$ 10,600,000	$ 21,200,000
2014	9,700,000	9,700,000	19,400,000
2015	8,330,000	8,330,000	16,660,000
2016	8,280,000	8,280,000	16,560,000
2017	8,665,000	8,665,000	17,330,000
2018-2022	50,930,000	50,930,000	101,860,000
2023-2027	51,660,606	51,660,606	103,321,213
2028-2032	14,970,680	14,970,680	29,941,361
2033-2037			-
Total	$ 163,136,287	$ 163,136,287	$ 326,272,573

Business-Type Activities			
Year	Principal	Interest	Total
2013	$ -	$ 45,188	$ 45,188
2014	-	45,188	45,188
2015	-	45,188	45,188
2016	-	45,188	45,188
2017	-	45,188	45,188
2018-2022	-	-	-
2023-2027	19,394	19,394	38,787
2028-2032	434,320	434,320	868,639
2033-2037			-
Total	$ 453,713	$ 679,653	$ 1,133,367

The City of Spokane has also received government and other loans to provide for the acquisition and construction of capital projects and other purposes.

Government and other loans outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Public Works Trust Fund Loans	Governmental & Business Type Activities	.50% - 3.00%	$ 10,180,055
State Community Development Loans	Governmental Activities	0.00%	325,000
State Revolving Loans	Business Type Activities	1.50% - 2.90%	2,277,181
Total government and other loans			$ 12,782,236

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

Governmental Activities			
Year	Principal	Interest	Total
2013	$ 209,771	$ 6,932	$ 216,704
2014	112,917	5,399	118,316
2015	112,917	4,834	117,751
2016	112,917	4,270	117,187
2017	112,917	3,705	116,622
2018-2022	510,492	10,057	520,549
2023-2027	117,647	882	118,529
2028-2032	-	-	-
2033-2037	-	-	-
2038-2042	325,000	-	325,000
Total	$ 1,614,579	$ 36,080	$ 1,650,659

Business-Type Activities			
Year	Principal	Interest	Total
2013	$ 1,363,269	$ 146,032	$ 1,509,301
2014	1,265,240	126,764	1,392,005
2015	1,210,815	108,446	1,319,261
2016	1,042,823	91,410	1,134,233
2017	1,045,526	76,435	1,121,961
2018-2022	3,362,202	228,439	3,590,642
2023-2027	1,573,927	87,709	1,661,636
2028-2032	303,854	19,229	323,083
2033-2037	-		-
Total	$ 11,167,656	$ 884,464	$ 12,052,121

Special Assessment Bonds

Special assessment bonds outstanding at December 31, 2012 were $965,000. Generally, the outstanding amount includes term bonds with an estimated amount of bonds to be retired each year. Bonds will be called yearly, as moneys are available from the collection of property assessments.

Name of Issuance	Issue Date	Maturity	Interest Rate	Debt Outstanding	Due Within One Year
CLID 208	4/1/2001	4/1/2013	5.50%	$ 15,000	$ 15,000
CLID 209	3/15/2002	3/15/2014	5.50%	55,000	-
CLID 212	4/1/2004	4/1/2016	3.48%	20,000	-
CLID 213	7/1/2004	7/1/2026	5.00%	240,000	-
CLID 214	8/15/2005	8/15/2015	4.376%	105,000	-
CLID 215	8/1/2006	8/1/2016	4.50%	110,000	-
CLID 217	8/15/2007	8/15/2017	4.60%	420,000	-
Total special assessment bonds				$ 965,000	$ 15,000

Revenue Bonds

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are issued to finance the acquisition and construction of capital projects, and are created by ordinance, adopted by the City Council, and financed from enterprise fund revenues. The original amount of revenue bonds issued in prior years was $3,380,000. Revenue bonds outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Golf System Refunding 1997	Business Type Activities	4.00% - 5.255	$ 520,000
Total revenue bonds			$ 520,000

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

	Business-Type Activities		
Year	**Principal**	**Interest**	**Total**
2013	$ 520,000	$ 27,300	$ 547,300
Total	$ 520,000	$ 27,300	$ 547,300

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2012, the City has $9.3 million available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $580,259 in reserves as required by bond indentures.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

Long-Term Liabilities	Outstanding 01/01/12	Additions	Reductions	Outstanding 12/31/12	Due Within One Year
GOVERMENTAL ACTIVITIES					
General obligation bonds	$ 173,666,287	$ -	$ (10,530,000)	$ 163,136,287	$ 10,600,000
Deferred amounts:				-	
Bond premiums at issuance	4,058,290	-	(206,606)	3,851,684	191,682
Bond premiums on refunding	560,870	-	(283,785)	277,085	200,459
Special assessment debt with governmental commitment	1,370,000	-	(405,000)	965,000	15,000
Government loans	1,863,053	-	(248,474)	1,614,579	209,771
Claims and judgements	16,752,979	1,197,570	-	17,950,549	17,950,549
OPEB (other postemployment benefit) liability	7,669,149	2,901,466	(43,490)	10,527,125	-
Compensated absences	12,080,352	5,204,151	-	17,284,503	1,038,939
Total long term liabilities - governmental activities	$ 218,020,980	$ 9,303,187	$ (11,717,355)	$ 215,606,812	$ 30,206,400
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General obligation bonds	453,713	-	-	453,713	-
Revenue bonds	1,005,000	-	(485,000)	520,000	520,000
Deferred amounts:					
Bond premiums at issuance	-	-	-	-	-
Bond premiums on refunding	(14,763)	9,723	-	(5,040)	(5,040)
Total bonds payable	1,443,950	9,723	(485,000)	968,673	514,960
Government loans	11,561,705	957,739	(1,351,787)	11,167,657	1,363,269
Landfill liabilities:					
Landfill closure	1,614,296	64,100	-	1,678,396	-
Postclosure monitoring	15,064,515	-	(1,451,224)	13,613,291	-
Compensated absences	3,076,848	2,023,941	(196,978)	4,903,811	194,127
Total long term liabilities - business-type activities	$ 32,761,314	$ 3,055,503	$ (3,484,989)	$ 32,331,828	$ 2,072,356

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end $1,895,152 of internal service funds compensated absences are included in the above amounts.

Legal Debt Margin

For purposes of determining the legal debt margin, the assessed valuation of the City for year 2012 is $14,700,985,219. 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.

	Total
General purpose voted and non-voted debt[1]	$ 220,736,970
Utility voted debt - 2.5%	367,524,630
Open space and park facilities voted debt - 2.5%	327,829,630
Total remaining debt capacity	
Total remaining debt capacity	$ 916,091,230

[1]Includes $158,714,083 debt capacity for non-voted debt

C. Leases

Operating Leases

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

The City entered into long term lease contracts with Xerox Corporation for two printers and Copiers Northwest for copy machines. Lease payments for the year ended December 31, 2012 were $146,434.

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

The City has the option of renewing the lease for four consecutive five-year periods subject to certain conditions. The lease ends April 30, 2018. Lease payments for the year ended December 31, 2012 amounted to $136,755.

Note 10
Interfund Balance and Transfers

A. Interfund Balances

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. Interfund balances at December 31, 2012 were as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	$ 5,466,582	$ 1,336,677
Special Assessment Fund	420,215	1,235,198
Nonmajor Governmental Funds	2,171,477	2,680,212
Water Fund	610,273	1,050,400
Sewer Fund	927,027	3,984,161
Solid Waste Fund	217,117	1,922,265
Nonmajor Enterprise Funds	128,648	59,340
Internal Service Funds	3,125,369	798,455
Fidiculary Funds	-	-
Total Government Wide	$ 13,066,708	$ 13,066,708

B. Interfund Loans

Interfund loans for 2012 are as follows:

Loan To:	Loan From:		
Fund	Spokane Investment Pool	Rental Rehabilitation Fund	Total
Property Acquisition Fund	$ 11,751,192	$ -	$ 11,751,192
Special Assessment Fund	2,961,203	-	2,961,203
Miscellaneous Grant Fund	-	100,000	100,000
Total	**$ 14,712,395**	**$ 100,000**	**$ 14,812,395**

The funds from the Spokane Investment Pool were used for the following:

$1.6 million for the Gardner Building to be used to facilitate office space for the Police Department.

$1.0 million for the West Plains to construct a new fire station.

$2.5 million for the Alki Building to be used to facilitate a new property evidence facility for the Police Department.

$3.8 million for the University District gateway.

$2.8 million for the Riverfront Conservation Area.

The $100,000 loan from the Miscellaneous Grant Fund to the Rental Rehabilitation Fund is used for temporary cash flow purposes until the grant reimbursements are received from the grantor funds. The amount of the loan is not to exceed $300,000. Complete repayment is due within 90 days after the end of the grant period.

The $2.9 million loan from the Spokane Investment Pool to the Property Acquisition Fund is for various loans set up to pay Consolidated Local Improvement District projects and for funding progress warrants during the year. See Note 8 for more information on progress warrants.

C. Interfund Transfers

Interfund transfers for 2012 are as follows:

Transfer from:	Transfer To:								
Fund	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Special Assessment Construction Fund	Water Fund	Sewer Fund	Internal Services Funds	Total
General Fund	$ -	$ 25,628,931	$ 1,016,261	$ 40,000	$ -	$ -	$ -	$ -	$ 26,685,192
Library Fund	-	-	11,616	-	-	-	-	-	11,616
Street Fund	-	-	1,502,052	-	-	-	-	-	1,502,052
Urban Forestry Fund	-	49,000	-	-	-	-	-	-	49,000
Park Fund	-	797,504	61,294	-	-	-	-	201,602	1,060,400
Parking Meter Fund	-	340,000	2,241,364	-	-	-	-	-	2,581,364
Hotel/Motel Lodging Fund	-	-	363,875	-	-	-	-	-	363,875
Real Estate Excise Tax Fund	-	700,000	-	192,616	-	-	-	-	892,616
Community Development Fund	128,037	398,253	130,455	92,700	-	-	-	-	749,445
Home Rehabilitation Fund	-	53,500	-	-	-	-	-	-	53,500
Park Cumulative Reserve Fund	-	-	100,000	-	-	-	-	-	100,000
Special Assessment (Debt) Fund	-	-	-	-	835,846	-	-	-	835,846
Arterial Street Fund	-	1,300,000	-	-	-	-	-	-	1,300,000
Capital Improvements 2004 fund	-	-	129,014	-	-	-	-	-	129,014
Water Fund	-	-	1,590	-	-	-	-	6,525	8,115
Sewer Fund	-	-	107,806	-	-	-	20,664	11,496	139,966
Solid Waste Fund	1,497	-	-	-	-	-	-	10,410	11,907
Golf Fund	-	-	11,345	-	-	-	-	15,849	27,194
Building Services Fund	-	-	-	-	-	-	-	3,032	3,032
Fleet Services Fund	-	-	7,545	-	-	-	-	-	7,545
Management Information Services Fund	-	-	201,535	-	-	10,990	-	-	212,525
Accounting Services Fund	-	-	-	-	-	-	-	1,663	1,663
Risk Management	-	-	171	-	-	-	-	-	171
Iron Bridge TIF Debt Service	-	-	42,750	-	-	-	-	-	42,750
Total	$ 129,534	$ 29,267,188	$ 6,928,673	$ 325,316	$ 835,846	$ 10,990	$ 20,664	$ 250,577	$ 36,768,788

Note 11

Joint Ventures

The City participates in two joint ventures. These are the Spokane International Airport and the Spokane Regional Transportation Council (SRTC). The City does not contribute any monies toward the operation of the Spokane International Airport. General fund monies are contributed to support the Spokane Regional Transportation Council. In 2012, $129,344 was paid to the Spokane Regional Transportation Council.

Spokane International Airport is jointly operated by the City and County of Spokane through a joint operating agreement in accordance with the "Airport Joint Operating Agreement"; which was last amended February 2, 2010. This agreement is pursuant to RCW 14.08.200. The unaudited summary below is for the fiscal year ended December 31, 2012 for the Spokane International Airport.

Spokane International Airport		2012
Total Assets	$	308,526,255
Total Liabilities		41,518,446
Total Net Position	$	**267,007,809**
Total Revenues	$	36,572,506
Total Capital Contributions		3,794,464
Total Expenses		35,367,026
Net Increase in Net Position	$	**4,999,944**
Net Position, Beginning of Year	$	262,007,865
Net Increase in Net Position		4,999,944
Net Position, End of Year	$	**267,007,809**

At December 31, 2012, the airport had $16.7 million in long-term revenue bonds outstanding with $2.9 million due on the current portion in 2013. The bonds are secured by airport revenues. Airport revenues are derived through user fees, parking fees, leased areas and buildings, federal and state grants, and interest from investments. Other long-term debt payable at year-end totaled $7.0 million.

The Spokane Airport Board administers the operations of the airport. It is composed of seven members, three of which are appointed by the County, three by the City, and one non-specific appointee. The City does not exercise any specific control over the budgeting and financing of the airport's activities. The complete financial report may be obtained by contacting the Spokane International Airport, 9000 W. Airport Drive, Suite 204, Spokane, WA, 99224.

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

The Council operates under a Board consisting of twelve voting members and four ex-officio non-voting members. Voting members consist of two County Commissioners, two City Council members, two elected officials representing the small cities/towns, one representative from the Spokane Valley, one board member from the STA, one representative from WSDOT, one member from the Washington State Transportation Commission, one member from a private sector transportation provider, and one member who is the Chair of the SRTC Transportation Advisory Committee. Ex-officio members consist of one member representing airports, rail, one member representing STA, and the Chair of the SRTC Transportation Technical Committee. The board selects management of the Council. Control over collection and disbursement of funds resides with the Council.

The unaudited summary below is for the fiscal year ended December 31, 2012. The Spokane Regional Transportation Council is audited by the Office of State Auditor.

leachate collection system; (3) maintaining and operating the ground and surface water monitoring systems; and (4) maintaining and operating the gas monitoring systems. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City recognizes a portion of these costs in each operating period based on landfill capacity used as of the balance sheet date.

The $1.6 million reported as landfill closure liability at December 31, 2012 represents the cumulative amount reported based on the use of 62 percent of the estimated capacity of Phase 1. This landfill has a remaining useful life of approximately 13 years. The City will recognize the remaining estimated cost of closure of $1.1 million as the remaining estimated capacity (Phase 1) is filled. All amounts recognized are based on what it would cost to perform all closure and postclosure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

As of December 31, 2012, the City held $1.6 million of restricted cash, which is reserved for the closure of the Northside Regional Landfill (Phase 1).

Postclosure Landfill Monitoring

The $13.6 million reported as landfill postclosure care liability at December 31, 2012 represents the cumulative amount required to monitor and maintain the closed portion of the Northside landfill, the open portion (Phase 1) of the Northside Regional landfill and the closed Southside landfill for the next 20-30 years. All amounts recognized are based on what it would cost to perform all postclosure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has restricted $6.0 million in assets related to the post-closure monitoring of the closed portion of the Northside landfill, and $5.3 million for post-closure monitoring of the open portion of the Northside landfill. No assets have been restricted for future costs of $2.3 million for the Southside landfill based on the City's interpretation of the applicability of Washington Administrative Code 173-304-467.

D. Golf Fund

Revenue Bond Covenants

In March of 1991 the City issued $5.8 million of golf system revenue bonds. These were issued with an average interest rate of 7.1035%. These bonds were issued to finance the construction of a fourth municipal City golf course.

In March of 1997 the City issued $3.38 million of golf system revenue refunding bonds to partially refund the 1991 bonds. These were issued with an average interest rate of 5.25%. The unrefunded 1991 Golf Bonds have matured and were paid in full on December 1, 2006.

A requirement of the bond ordinance was to establish a rate covenant that provides that net revenue of the Golf fund will equal at least 1.25 times the debt service on the bonds and any additional bonds in that year. The ordinance also provides for the establishment of a reserve account to secure the payment of principal and interest on the bonds. The reserve account for the bonds is an amount equal to the lesser of a) 10% of the bond proceeds, b) the maximum annual debt service, or c) 125% of the average annual debt service on the bonds. There is no intention of issuing additional revenue bonds for golf purposes at this time. The reserve account has been established in the Golf Debt Service fund.

The Golf Fund revenue did not meet the rate covenant for 2012. The net revenue ratio, as stated above, requires the net revenue be 1.25 times the debt service on the bonds. The net revenue ratio was only 0.88 for 2012.

Note 13
Commitments & Contingencies

A. Disability Supplemental Pensions

The Department of Labor and Industries made a determination that four employees of the City were totally disabled as the result of industrial injuries. This determination required the employees to be placed on the pension rolls of the Department of Labor and Industries supplemental pension fund and provided for monthly pension benefits. Since the City is self-insured, the City is responsible for funding these pension benefits. The City has deposited $427,949 with the State of Washington which represents the full present value (as of June 30, 1995) of the pensions. The State will invest the $427,949 on the City's behalf and pay pensions each month from that deposit. Interest earnings will accrue to the deposit. Each year, in June, the pensions are actuarially re-evaluated and excess monies, from interest earnings and decreasing present value, are returned to the City. As of June 30, 2012, there are three pensioners remaining. The current value of the deposit, as of June 30, 2012, was $270,211.

B. Downtown Housing Stabilization

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

C. Spokane Public Facilities District

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

1. The City will transfer to the PFD all admission taxes collected at Spokane Center and Arena events.

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

This agreement is valid through December 31, 2038.

Note 14
Prior Period Adjustments

The Statement of Activities reports a net increase to net position of $3,841,436 as follows:

$6,648,787 increase for governmental activities
$2,807,351 decrease for business-type activities

Governmental Activities
$527,962 decrease due in the General Fund due to an overstatement of utility taxes in the prior year.

$35,324 increase due in the General Fund due to a correction of a prior year liability that was related to the claims funds.

$13,526 decrease in the Street Fund due to a correction of prior year receivable.

$6,604,324 increase in fixed assets in the Park Fund due to the reclassification of certain improvements.

$45,320 decrease in the Special Assessment Fund due to a correction of a prior year debt payment.

$90,000 decrease in the Miscellaneous Grant Fund due to a correction of prior year grant.

$426,309 increase in the Home Program Fund to reclassify prior year program income per recommendation of our cognizant grant agency HUD (Department of Housing and Urban Development).

$426,309 decrease in the Home Rehabilitation Fund to reclassify prior year program income per recommendation of our cognizant grant agency HUD (Department of Housing and Urban Development).

The following funds report a change in net position as a result of a difference in how the city's new payroll system accounted for certain benefits. This prior period adjustment was necessary to avoid overstating the 2012 expenses.

As a result of a difference in how the city's new payroll system accounted for certain benefits.

General Fund		
General Fund	$	(460,487)
Code Enforcement		(4,371)
Library		(34,669)
Total	$	**(499,527)**

Special Revenue Funds		
Streets	$	(67,397)
Urban Forestry		(1,607)
Park		(43,675)
CDB Tree Maintenance		(2)
Law Enforcement Information Systems		(6,172)
Human Service Grant		(242)
Public Safety & Judicial Grants		(1,941)
Combined Communications Center		(1,922)
Community Development		(6,257)
WIA Adult Programs		(570)
WIA Youth Programs		(865)
WIA Dislocated Worker		(577)
WIA Admin Cost Pool		(1,454)
Emergency Medical Services		(9,078)
Total	$	**(141,759)**

Internal Service Funds	
Fleet Services	$ (23,572)
Public Works & Utility	(14,219)
Management Information Services	(29,160)
Accounting Services	(20,620)
Risk Management	(478)
Workers' Compensation	(2,151)
Unemployment Insurance	(93)
Employee Benefits	1,417,526
Total	**$ 1,327,233**

Business-Type Activities
$3,000,000 decrease in the Sewer Fund for a payment to Spokane County for a prior year disputed charge that was settled in the current year.

$527,962 increase in the Sewer Fund to correct an overstatement of utility taxes in the prior year.

The following funds report a change in net position as a result of a difference in how the city's new payroll system accounted for certain benefits. This prior period adjustment was necessary to avoid overstating the 2012 expenses.

Enterprise Funds	
Water	$ (86,054)
Sewer	(104,359)
Solid Waste	(119,902)
Golf	(8,050)
Building Services	(16,948)
Total	**$ (335,313)**

Note 15
Legal Matters

In the normal course of governmental operations the City has claims filed against it for various losses related to tort actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. At any given point in time, there is a recurring volume of tort and other claims for compensation and damages against the City, which could impact expenditures. The City's Risk Management Fund provides for these claims, and insurance is available to pay a portion of damages for certain types of claims. The collective impact of these claims is not likely to have a material impact on the City's financial position. There are no known pending or anticipated legal matters that would materially affect the financial statements of the City for the year ending December 31, 2012.

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
General Fund Accounts
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ 128,597,605	$ 128,897,605	$ 127,794,361	$ (1,103,244)
Licenses and permits	6,708,880	6,708,880	6,182,420	(526,460)
Intergovernmental	5,801,725	7,343,217	5,688,111	(1,655,106)
Charges for services	17,356,061	17,656,061	16,234,110	(1,421,951)
Fines and forfeitures	3,549,500	3,549,500	2,874,284	(675,216)
Miscellaneous	3,201,277	2,901,277	5,083,090	2,181,813
Total resources	165,215,048	167,056,540	163,856,376	(3,200,164)
EXPENDITURES				
General government	22,485,280	22,908,105	22,935,759	(27,654)
Public safety	88,229,504	90,211,633	86,960,520	3,251,113
Utilities environment	12,008,708	12,081,045	11,592,841	488,204
Transportation	130,918	130,918	78,951	51,967
Economic environment	5,731,851	6,200,251	5,482,532	717,719
Mental and physical health	110,080	110,080	108,064	2,016
Culture and recreation	8,433,637	8,440,593	8,296,458	144,135
Capital outlay	1,994,169	2,262,676	1,801,779	460,897
Debt service:	-	-	-	-
Interest	286,386	220,586	100,902	119,684
Total expenditures	139,410,533	142,565,887	137,357,806	5,208,081
Excess resources over expenditures	25,804,515	24,490,653	26,498,570	2,007,917
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	2,855,987	2,855,987
Collection of revolving loans	-	-	-	-
Transfers in	12,126	12,126	129,534	117,408
Transfers out	(27,205,663)	(27,125,663)	(26,696,808)	428,855
Total other financing sources (uses)	(27,193,537)	(27,113,537)	(23,711,287)	3,402,250
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(1,389,022)	(2,622,884)	2,787,283	5,410,167
Other changes in fund balance				
Prior period adjustment	-	-	(992,165)	(992,165)
Fund Balance - beginning	36,715,029	36,715,029	36,715,029	-
Fund Balance - ending	$ 35,326,007	$ 34,092,145	$ 38,510,147	$ 4,418,002

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Special Assessment Construction Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	323	323
Total resources	-	-	323	323
EXPENDITURES				
General government	-	-	-	-
Security of persons and property	-	-	-	-
Utilities environment	-	-	-	-
Physical environment	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	3,505,994	(3,505,994)
Debt service:				
Principal	1,430,000	1,430,000	-	1,430,000
Interest	-	-	86,977	(86,977)
Total expenditures	1,430,000	1,430,000	3,592,971	(2,162,971)
Excess resources over expenditures	(1,430,000)	(1,430,000)	(3,592,648)	(2,162,648)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Long term debt issued	1,430,000	1,430,000	-	(1,430,000)
Transfers in	-	-	835,846	835,846
Transfers out	-	-	-	-
Total other financing sources (uses)	1,430,000	1,430,000	835,846	(594,154)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	(2,756,802)	(2,756,802)
Other changes in fund balance				
Prior Period Adjustment	-	-	(45,320)	(45,320)
Fund Balance - beginning	(2,094,543)	(2,094,543)	(2,094,543)	4,189,086
Fund Balance - ending	$ (2,094,543)	$ (2,094,543)	$ (4,896,665)	$ 1,386,964

Required Supplementary Information
Schedule of Funding Progress

Schedule of Funding Progress
Employees' Retirement System
Valuation Years 2012 through 2006
(dollars in thousands)

	2012	2011	2010	2009	2008	2007	2006
Actuarial valuation date	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Actuarial value of plan assets	$ 241,425	$ 241,611	$ 241,748	$ 231,997	$ 193,314	$ 242,615	$ 231,576
Actuarial accrued liability	364,716	351,318	334,849	317,577	295,223	272,202	272,818
Unfunded actuarial liability	123,291	109,707	93,101	85,580	101,909	29,587	41,242
Percentage funded	66.2%	68.8%	72.2%	73.1%	65.5%	89.1%	84.9%
Covered payroll	89,015	90,264	88,094	83,455	74,183	69,262	67,751
Unfunded actuarial liability as a percentage of covered payroll	138.51%	121.54%	105.68%	102.55%	137.38%	42.72%	60.87%

Source: City of Spokane

Schedule of Funding Progress
Firefighters' Pension System
Valuation Years 2012 through 2003
(dollars in thousands)

	2012	2010	2008	2006	2005	2004	2003
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial value of plan assets	$ 12,571	$ 14,246	$ 15,259	$ 13,325	$ 12,480	$ 12,960	$ 13,080
Actuarial accrued liability	25,755	29,639	33,364	32,728	27,565	15,590	10,494
Unfunded actuarial liability	13,184	15,393	18,105	19,403	15,085	2,630	(2,586)
Percentage funded	49%	48%	46%	41%	45%	83%	125%
Covered payroll	N/A	244	217	380	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	6309%	8343%	5106%	N/A	N/A	N/A

Beginning in 2008, the City began using a two-year actuarial cycle.

Source: City of Spokane

Schedule of Funding Progress cont.

Schedule of Funding Progress
Police Pension System
Valuation Years 2012 through 2003
(dollars in thousands)

	2012	2010	2008	2006	2005	2004	2003
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial value of plan assets	$ 664	$ 714	$ 929	$ 659	$ 787	$ 963	$ -
Actuarial accrued liability	10,599	12,450	18,350	16,480	14,332	6,538	7,174
Unfunded actuarial liability	9,935	11,736	17,421	15,821	13,545	5,575	7,174
Percentage funded	6%	6%	5%	4%	5%	15%	0%
Covered payroll	N/A	143	136	176	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	8207%	12810%	8989%	N/A	N/A	N/A

Beginning in 2008, the City began using a two-year actuarial cycle.

Source: City of Spokane

Schedule of Employer Contributions

Schedule of Contributions from Employers
For the Fiscal Years Ended December 31, 2012 through 2006
(dollars in thousands)

	2012	2011	2010	2009	2008	2007	2006
Employees' Retirement System							
Employer's annual required contribution	$ 8,326	$ 10,011	$ 8,955	$ 8,267	$ 8,827	$ 5,743	$ 6,231
Employer's actual contribution	6,938	6,799	6,581	6,474	4,875	4,518	4,287
Percentage contributed	83.33%	67.92%	73.49%	78.31%	55.23%	78.67%	68.80%
Annual pension cost	8,734	10,337	9,219	8,485	8,950	5,835	6,299
Net pension obligation	19,322	17,525	13,988	11,349	9,339	5,265	3,949
Firefighters' Pension System							
Employer's annual required contribution	$ 1,071	$ 1,071	$ 1,215	$ 1,215	$ 1,262	$ 1,262	$ 1,947
Employer's actual contribution	440		758	697	1,360	2,082	1,947
Percentage contributed	41%	0%	62%	57%	108%	165%	100%
Annual pension cost	1,058	1,077	1,228	1,234	1,279	1,268	1,991
Net pension obligation	1,329	711	(366)	(835)	(1,373)	(1,291)	(477)
Police Pension System							
Employer's annual required contribution	$ 734	$ 734	$ 1,045	$ 1,045	$ 1,029	$ 1,029	$ 886
Employer's actual contribution	870	849	768	1,037	1,108	1,450	886
Percentage contributed	118%	116%	73%	99%	108%	141%	100%
Annual pension cost	685	684	1,003	1,005	998	995	827
Net pension obligation	2,123	2,308	2,473	2,238	2,270	2,380	2,834

Source: City of Spokane

Other Postemployment Benefits

Schedule of Funding Progress
Other Postemployment Benefits
Firefighters' Pension System
Valuation Years 2012 through 2006
(dollars in thousands)

Firefighters' Pension System	2012	2010	2008	2006
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006
Actuarial value of plan assets	$ 12,576	$ 7,889	$ 5,133	$ 3,347
Actuarial accrued liability (AAL)	62,779	77,975	65,479	55,666
Unfunded actuarial accrued liability (UAAL)	50,203	70,086	60,346	52,319
Funded ratio	20%	10%	8%	6%
Covered payroll	N/A	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A	N/A

Beginning in 2008, the City began using a two-year actuarial cycle.

Source: City of Spokane

Schedule of Funding Progress
Other Postemployment Benefits
Police Pension System
Valuation Years 2012 through 2006
(dollars in thousands)

Police Pension System	2012	2010	2008	2006
Actuarial valuation date	12/31/2012	12/31/2010	12/31/2008	12/31/2006
Actuarial value of plan assets	$ -	$ -	$ -	$ -
Actuarial accrued liability (AAL)	73,197	91,069	74,045	51,370
Unfunded actuarial accrued liability (UAAL)	73,197	91,069	74,045	51,370
Funded ratio	0%	0%	0%	0%
Covered payroll	N/A	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A	N/A

Beginning in 2008, the City began using a two-year actuarial cycle.

Source: City of Spokane

Notes to the Required Supplementary Information

For the Fiscal Year Ended December 31, 2012

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial methods and significant assumptions used in these valuations are available in the publicly available actuary reports for the three pension plans. These reports may be obtained by writing to the Spokane Employees' Retirement System, City Hall, 808 West Spokane Falls Blvd, Spokane, Washington, 99201 or by calling (509) 625-6330.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER I.D. NUMBER	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Dept of Commerce / pass-through from WA State Military Department	Public Safety Interoperable Communications Grant Program	11.555		1,745,424		1,745,424	10
U. S. Department of Housing and Urban Development	Community Development Block Grants/Entitlement Grants	14.218	Program Income		20,930		3
			Program Income		63,680		3
			B10-MC-530006		1,175,280		10
			Program Income		26,830		3
			B11-MC-530006		2,045,008		10
			Program Income		1,066,916		3
			Program Income		341,157		3
			Subtotal		4,739,801	4,739,801	
U. S. Department of Housing and Urban Development/ Pass-Through from WA State Dept. of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	08-F6401-019	368,524			
			11-67400-004	306,964			
			Subtotal	675,488		675,488	
U. S. Department of Housing and Urban Development	Emergency Solutions Grant Program	14.231	S11-MC-530002		185,055		10
			S12-MC-530002		77,424		10
			Subtotal		262,479	262,479	
U. S. Department of Housing and Urban Development	Supportive Housing Program	14.235	N/A		803,734		10
			N/A		95,208		10
			N/A		1,096,440		10
			Subtotal		1,995,382	1,995,382	
U. S. Department of Housing and Urban Development	Shelter Plus Care	14.238	N/A		293,050		10
			N/A		296,674		10
			Subtotal		589,724	589,724	
U. S. Department of Housing and Urban Development	Home Investment Partnerships Program	14.239	Program Income		76,742		3
			M08-MC-530201		18,763		10
			M09-MC-530201		13,426		10
			Program Income		36,986		3
			M10-MC-530201		1,075,376		10
			M11-MC-530201		122,115		10
			Program Income		61,275		3
			M12-MC-530201		5,844		10
			Program Income		62,461		3
			Subtotal		1,472,988	1,472,988	
U. S. Department of Housing and Urban Development	**ARRA**-Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	B09-MY-53-0006		50,000	50,000	7, 9A
U. S. Department of Housing and Urban Development	**ARRA**-Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B09-NI-WA-0009		6,493	6,493	7, 9A 10

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER I.D. NUMBER	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U. S. Department of Housing and Urban Development	**ARRA**-Homeless Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	S09-MY-53-0002		357,483	357,483	7, 9A 10
U.S. Department of Housing and Urban Development	Lead Hazard Reduction Demonstration Grant Program	14.905	WA LHD 0239-12		173,782	173,782	
U.S. Department of Housing and Urban Development	**ARRA**-Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded)	14.907	WA LHB 0429-08 Program Income Subtotal		411,368 100 411,468	 411,468	7, 9A 10 3
U.S. Department of Interior/ Pass-Through from WA State Dept. of Archaeology and Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY12-61012-015	8,837		8,837	
U.S. Department of Justice/ Pass-Through from WA State Patrol	Domestic Cannabis Eradication/ Suppression	16.C120829FED	C120829FED	18,926		18,926	9B
U.S. Department of Justice	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	N/A		17,256	17,256	10
U.S. Department of Justice	Bulletproof Vest Partnership Program	16.607	N/A		3,233	3,233	
U.S. Department of Justice Pass-Through from WA State Dept. of Commerce	Project Safe Neighborhoods	16.609		25,503		25,503	
U.S. Department of Justice	Public Safety Partnership & Community Policing Grants	16.710	N/A N/A N/A Subtotal		1,076,283 21,199 10,978 1,108,460	 1,108,460	10
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A Program Income N/A N/A Subtotal		97,074 5,491 145,763 14,656 262,984	 262,984	10 10 10
U.S. Department of Justice/ Pass-Through from from Spokane County	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M12-34021-016	36,610		36,610	
			Total - CFDA 16.738	36,610	262,984	299,594	
U.S. Department of Justice/ Pass-Through from Spokane County Sheriff's Office	Congressionally Recommended Awards	16.753	N/A	2,015		2,015	

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER I.D. NUMBER	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Department of Justice	**ARRA-**Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	N/A		302,343	302,343	7, 10
U.S. Department of Labor/ Pass-Through from WA State Employment Security Department	WIA Adult Program	17.258	6112-1101	3,289			
			61112-7101	29,954			10
			6112-1102	788,929			10
			6112-7102	73,610			10
			6112-1103	243,803			10
			6112-7400-04	52,130			10
			6112-7620-09	166,796			10
			6612-7620-15	35,947			10
			6112-7620-17	104,182			
			6112-7620-18	110,000			10
			6112-7620-21	11,220			10
			6112-6982-02	1,676			10
			6112-6992-02	548			10
			6112-7301	51,941			10
			6112-1302	197,403			
			Program Income	23,117			
			6112-7302	155,035			10
			Program Income	19,563			
			6112-1303	5,648			10
			Program Income	12,724			
			Subtotal	2,087,515		2,087,515	
U.S. Department of Labor/Pass-Through from WA State Employment Security Department	WIA Youth Activities	17.259	6112-7001	760,201			10
			Program Income	1,136			
			6112-7002	383,396			10
			Subtotal	1,144,733		1,144,733	
U.S. Department of Labor/Pass-Through from WA State Employment Security Department	**ARRA-**WIA Dislocated Workers	17.260	6112-4670-02	84,866		84,866	7, 10
U.S. Department of Labor	WIA Pilots, Demonstrations, and Research Projects	17.261	EA-21593-11-60-A		169,632	169,632	
U.S. Department of Labor/Pass-Through from Workforce Training and Education Coordinating Board	**ARRA-**Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	IAA 774-10	528,758		528,758	7, 10

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER I.D. NUMBER	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Department of Labor/Pass-Through from WA State Employment Security Department	WIA Dislocated Worker	17.278	6112-1201	3,923			
	Formula Grants		6112-7201	150,349			10
			6112-1202	889,807			10
			Subtotal	1,044,079		1,044,079	
U.S. Department of Transportation/Pass-Through from WA State Department of Transportation	Highway Planning and Construction	20.205	STPD 3850(001)	730,324			
			STPUL-4001 (001)	883,502			
			Program Income	275,625			
			CM-9932(034)	9,056			
			CM-0002(261)	519,460			
			CM-3850(004)	36,651			
			STPD 3850(006)	42,816			
			CM-0395(084)	28,655			
			CM-0291(022)	2,314			
			STPUL 3756(004)	200,901			
			CM-3948(006)	49,921			
			TCSP-1220(024)	6,922			
			STPE-EN10(020)	510,306			
			TCSP-09WA(008)	19,246			
			HSIP-1220(022)	20,073			
			STPUL-1220(025)	15,016			
			STPUL-1220(026)	28,154			
			STPUL-3792(001)	11,968			
			CM-9932(039)	50,947			
			CM-0002(828)	23,705			
			CM-3948(005)	2,509			
			CM-3794(002)	42,903			
			STPUL-1220(027)	30,551			
			Subtotal	3,541,525		3,541,525	
U.S. Department of Transportation/Pass-Through from Washington State Patrol	National Motor Carrier Safety	20.218	C090429GSC	4,720		4,720	
U.S. Department of Transportation/Pass-Through from WA State Traffic Safely Commission	State and Community Highway Safety	20.600	N/A	10,585			
			N/A	4,660			
			N/A	280			
			Subtotal	15,525		15,525	
U.S. Department of Transportation/Pass-Through from WA State Traffic Safely Commission	Alcohol Impaired Driving Countermeasures Incentive Grants 1	20.601	N/A	5,722			
			N/A	712			
			Subtotal	6,434		6,434	

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
FEDERAL AGENCY NAME/ PASS-THROUGH AGENCY NAME	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER I.D. NUMBER	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Department of Transportation/Pass-Through from WA State Traffic Safely Commission	Occupant Protection Incentive Grants	20.602	N/A	2,947		2,947	
Environmental Protection Agency Pass-Through from WA State Dept. of Health	Capitization Grants for Drinking Water State Revolving Funds	66.468	N19362	30,000		30,000	10
Environmental Protection Agency	Solid Waste Management Assistance Grants	66.808	X1-00J49801-0		16,621	16,621	
U.S. Dept of Energy	**ARRA**-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	SC0001734		164,890	164,890	7
U.S. Dept of Energy/ Pass-Through from WA State Dept. of Commerce	**ARRA**-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0000849	50,869		50,869	7
			Total - CFDA 81.128	50,869	164,890	215,759	
U.S. Dept of Health & Human Services/Pass-Through from Aging & Long Term Care of Eastern Washington	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	11-12:58,41:12	3,461		3,461	
U.S. Dept of Health & Human Services/Pass-Through from Greater Spokane County Meals on Wheels	Special Programs for the Aging_Title III, Part C_ Nutrition Services	93.045	N/A	16,219		16,219	
U. S. Department of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2008-FO-08524		5,222		
			EMW-2009-FO-11955		1,164		
			EMW-2011-FO-06717		15,858		
			Subtotal		22,244	22,244	
U. S. Department of Homeland Security/ Pass-Through from Spokane County Department of Emergency Management	Homeland Security Grant Program	97.067	N/A	49,712			
			N/A	6,022			
			N/A	25,840			
			E12-173	10,216			4
			E11-119	31,843			4
			Subtotal	123,633		123,633	
U. S. Department of Homeland Security/ Pass-Through from State of Idaho Military Division	Homeland Security Grant Program	97.067	60589581	10,000			4
			60594631	1,420			4
			60594641	626			4
			60594651	904			4
			60594661	6,288			4
			Subtotal	19,238		19,238	
			Total - CFDA 97.067	142,871		142,871	
Total Federal Awards Expended				11,217,325	12,127,263	23,344,588	

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

CITY OF SPOKANE, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting for all governmental funds. The accrual basis of accounting is used for all proprietary, non-expendable trust and pension trust funds.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City of Spokane has a revolving loan program for low-income housing. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year for the HOME program was $ 1,155,190, for the Community Development Block Grants was $ 875,292, and for the Lead Safe Spokane program was $246,986. These amounts are presented in this schedule. The amount of principal and interest received in loan repayments for the year for the HOME program was $ 101,732, and for the Community Development Block Grants was $ 851,598.

NOTE 4 – NONCASH AWARDS – EQUIPMENT

The City received equipment from Spokane City/County Department of Emergency Management that was purchased with federal Homeland Security funds. The amount reported on the SEFA is the value of the property on the date it was received by the City and priced by Homeland Security.

NOTE 5 – INDIRECT COST RATE

The City did not use an indirect cost rate in 2012.

NOTE 6 – INCOME AFTER THE GRANT PERIOD

The City leases property to a private entity that was originally purchased with Federal Highway Planning and Construction dollars. As the grant period has ended there is no reference to these funds on the SEFA but the City is required to restrict these funds for activities eligible for funding under title 23 of the United States Code. For 2012 the income received was $110,410; the expenditures for maintenance were $21,103 for total restricted revenue of $89,307. The property was sold during 2012 with the proceeds of that sale also being restricted revenue.

NOTE 7 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA

NOTE 8 – FEMA DISASTER ASSISTANCE

The City was approved for FEMA disaster assistance for Snowstorm 2008. While all disaster assistance that had been approved and received during 2009, 2010, and 2011 was included on that year’s SEFA there are some remaining costs that were approved in 2010 but not received in 2012. The final assistance for snowstorm 2008 is expected to be received in 2013.

CITY OF SPOKANE, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 – CFDA NUMBER CLARIFICATION

(A) Four ARRA funded grants on the SEFA have had their CFDA numbers archived on the CFDA website. The grants were awarded under these CFDA numbers and the City is still administering the grant programs. They are 14.253, 14.256, 14.257, and 14.907.

(B) The U.S. Department of Justice Domestic Cannabis Eradication/Suppression program does not have a distinct CFDA number. It is presented on the SEFA as 16 which is the U.S. Department of Justice federal agency's two digit prefix followed by the contract or grant number.

NOTE 10 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the City of Spokane is $10,485,537 that was passed through to subrecipients that administered their own projects.

CFDA 11.555	1,679,305
CFDA 14.218	552,456
CFDA 14.231	250,147
CFDA 14.235	1,819,981
CFDA 14.238	586,314
CFDA 14.239	188,955
CFDA 14.256	5,939
CFDA 14.257	260,824
CFDA 16.528	5,591
CFDA 16.710	796,207
CFDA 16.738	76,002
CFDA 16.804	179,665
CFDA 17.258	1,536,154
CFDA 17.259	957,778
CFDA 17.260	84,759
CFDA 17.275	523,890
CFDA 17.278	951,570
CFDA 66.468	30,000
	10,485,537

Schedule for General Fund Accounts
Balance Sheet
December 31, 2012

continued

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities	Municipal Arts Projects
ASSETS						
Cash and cash equivalents	$ 8,817,370	$ 140,046	$ 577,277	$ 508,254	$ 390	$ 5,407
Deposits with fiscal agents/trustees	-	-	-	-	-	-
Equity in pooled investments	14,791,656	-	408,967	-	-	-
Taxes receivable	11,175,059	266,084	-	-	-	-
Accounts receivable	3,039,533	5,356	126,023	18,728	-	-
Interest receivable	210,918	-	180	-	-	-
Due from other funds	5,456,320	10,059	195	-	7	-
Interfund loan receivable	153,438	-	4,450	-	-	-
Due from other governments	4,456	-	-	-	-	-
Advances to other funds	771,380	-	22,370			
Inventories	-	-	-	-	-	-
Notes/contract receivable (non current)	-	-	-	-	-	-
Total Assets	44,420,130	421,545	1,139,462	526,982	397	5,407
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts/vouchers payable	1,448,805	10,303	60,506	2,109	-	-
Due to other funds	1,121,606	213,277	1,668	119	7	-
Interfund loan payable	-	-	-	-	-	-
Other accrued liabilities	2,645,624	23,690	133,935	-	-	-
Other current liabilities	920,898	-	208	-	-	-
Deferred revenue	2,185,249	-	-	-	-	-
Total Liabilities	8,322,182	247,270	196,317	2,228	7	-
FUND BALANCE:						
Nonspendable	924,818	-	26,820	-	-	-
Restricted for:						
Inventories	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Grants	38,630	-	-	-	-	-
Committed	15,486,601	-	-	518,395	390	-
Assigned	1,822,322	174,275	916,325	-	-	-
Unassigned	17,825,577	-	-	6,359	-	5,407
Total Fund Balance	$ 36,097,948	$ 174,275	$ 943,145	$ 524,754	$ 390	$ 5,407

Schedule for General Fund Accounts
Balance Sheet
December 31, 2012

concluded

	Capital Improvement Program	Hope Acquisition	Housing Trust Grant	JTPA Private Industry Council	Cumulative Reserve	Total
ASSETS						
Cash and cash equivalents	$ 5,031	$ 45,273	$ 23,178	$ 659	$ 22,569	$ **10,145,454**
Deposits with fiscal agents/trustees	-	-	-	-	-	**-**
Equity in pooled investments	53,174	193,672	158,308	9,951	-	**15,615,728**
Taxes receivable	-	-	-	-	-	**11,441,143**
Accounts receivable	-	-	-	-	-	**3,189,640**
Interest receivable	24	225	185	12	-	**211,544**
Due from other funds	-	-	-	-	-	**5,466,581**
Interfund loan receivable	578	2,107	1,722	108	-	**162,403**
Due from other governments	-	-	-	-	-	**4,456**
Advances to other funds	2,908	10,594	8,659	545	-	**816,456**
Inventories	-	-	-	-	-	**-**
Notes/contract receivable (non current)	-	220,306	25,480	-	-	**245,786**
Total Assets	61,715	472,177	217,532	11,275	22,569	**47,299,191**
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts/vouchers payable	4	1,036	-	-	-	**1,522,763**
Due to other funds	-	-	-	-	-	**1,336,677**
Interfund loan payable	-	-	-	-	-	**-**
Other accrued liabilities	-	-	-	-	-	**2,803,249**
Other current liabilities	20,000	-	-	-	-	**941,106**
Deferred revenue	-	-	-	-	-	**2,185,249**
Total Liabilities	20,004	1,036	-	-	-	**8,789,044**
FUND BALANCE:						
Nonspendable	3,486	12,701	10,381	653	-	**978,859**
Restricted for:						
Inventories	-	-	-	-	-	**-**
Capital projects	-	-	-	-	-	**-**
Grants	-	458,440	207,151	-	-	**704,221**
Committed	-	-	-	10,086	-	**16,015,472**
Assigned	38,225	-	-	536	22,569	**2,974,252**
Unassigned	-	-	-	-	-	**17,837,343**
Total Fund Balance	$ 41,711	$ 471,141	$ 217,532	$ 11,275	$ 22,569	$ **38,510,147**

Schedule for General Fund Accounts
Statement of Revenue, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012

continued

	General Fund	Code Enforcement	Library	Under Freeway Parking	Parking Facilities	Municipal Art Projects	Capital Improvement Program
REVENUES							
Taxes	$ 127,788,696	$ 5,665	$ -	$ -	$ -	$ -	$ -
Licenses and permits	6,182,420	-	-	-	-	-	-
Intergovernmental	5,688,111	-	-	-	-	-	-
Charges for services	15,197,590	1,009,623	26,897	-	-	-	-
Fines and forfeitures	2,668,318	-	205,966	-	-	-	-
Miscellaneous	4,731,367	102,900	101,816	139,569	-	-	555
Total Revenues	162,256,502	1,118,188	334,679	139,569	-	-	555
EXPENDITURES							
Current:							
General government	22,935,730	-	-	-	-	-	29
Security of persons and property	86,960,520	-	-	-	-	-	-
Utilities Environment	10,234,755	1,358,084	-	-	-	-	2
Physical environment	-	-	-	78,951	-	-	
Economic environment	5,430,955	-	-	-	-	-	-
Mental and physical health	108,064	-	-	-	-	-	-
Culture and recreation	816,411	-	7,480,043	-	-	4	-
Capital outlays	905,477	-	855,357	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	100,902	-	-	-	-	-	-
Total Expenditures	127,492,814	1,358,084	8,335,400	78,951	-	4	31
Excess of Revenues Over (Under) Expenditures	34,763,688	(239,896)	(8,000,721)	60,618	-	(4)	524
OTHER FINANCING SOURCES (USES)							
Sale of capital assets	2,855,987	-	-	-	-	-	-
Collection of revolving loans	-	-	-	-	-	-	-
Transfers in	129,534	247,224	7,938,397	-	-	-	-
Transfers out	(34,870,813)	-	(11,616)	-	-	-	-
Total Other Financing Sources (Uses)	(31,885,292)	247,224	7,926,781	-	-	-	-
Change in Fund Balance	2,878,396	7,328	(73,940)	60,618	-	(4)	524
Other Changes in Fund Balance							
Prior Period Adjustment	(953,125)	(4,371)	(34,669)	-	-	-	-
Fund Balance - beginning	34,172,677	171,318	1,051,754	464,136	390	5,411	41,187
Fund Balance - ending	$ 36,097,948	$ 174,275	$ 943,145	$ 524,754	$ 390	$ 5,407	$ 41,711

Schedule for General Fund Accounts
Statement of Revenue, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012

Concluded

	Hope Acquisition	Housing Trust Grant	JTPA Private Industry Council	Cumulative Reserve	Eliminations	Total
REVENUES						
Taxes	$ -	$ -	$ -	$ -	$ -	**$ 127,794,361**
Licenses and permits	-	-	-	-	-	**6,182,420**
Intergovernmental	-	-	-	-	-	**5,688,111**
Charges for services	-	-	-	-	-	**16,234,110**
Fines and forfeitures	-	-	-	-	-	**2,874,284**
Miscellaneous	3,851	2,853	179	-	-	**5,083,090**
Total Revenues	3,851	2,853	179	-	-	**163,856,376**
EXPENDITURES						
Current:						
General government	-	-	-	-	-	**22,935,759**
Security of persons and property	-	-	-	-	-	**86,960,520**
Utilities Environment	-	-	-	-	-	**11,592,841**
Physical environment	-	-	-	-	-	**78,951**
Economic environment	51,578	-	-	-	-	**5,482,533**
Mental and physical health	-	-	-	-	-	**108,064**
Culture and recreation	-	-	-	-	-	**8,296,458**
Capital outlays	40,944	-	-	-	-	**1,801,778**
Debt service:						
Principal	-	-	-	-	-	**-**
Interest	-	-	-	-	-	**100,902**
Total Expenditures	92,522	-	-	-	-	**137,357,806**
Excess of Revenues Over (Under) Expenditures	(88,671)	2,853	179	-	-	**26,498,570**
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	-	-	-	-	-	**2,855,987**
Collection of revolving loans	-	-	-	-	-	**-**
Transfers in	-	-	-	-	(8,185,621)	**129,534**
Transfers out	-	-	-	-	8,185,621	**(26,696,808)**
Total Other Financing Sources (Uses)	-	-	-	-	-	**(23,711,287)**
Change in Fund Balance	(88,671)	2,853	179	-	-	**2,787,283**
Other Changes in Fund Balance						
Prior Period Adjustment	-	-	-	-	-	**(992,165)**
Fund Balance - beginning	559,812	214,679	11,096	22,569	-	**36,715,029**
Fund Balance - ending	$ 471,141	$ 217,532	$ 11,275	$ 22,569	$ -	**$ 38,510,147**

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ 128,597,600	$ 128,897,600	$ 127,788,696	$ (1,108,904)
Licenses and permits	6,708,880	6,708,880	6,182,420	(526,460)
Intergovernmental	5,799,225	7,340,717	5,688,111	(1,652,606)
Charges for services	16,205,220	16,505,220	15,197,590	(1,307,630)
Fines and forfeitures	3,314,500	3,314,500	2,668,318	(646,182)
Miscellaneous	2,916,327	2,616,327	4,731,367	2,115,040
Total resources	163,541,752	165,383,244	162,256,502	(3,126,742)
EXPENDITURES				
General government	22,485,280	22,908,105	22,935,730	(27,625)
Public safety	88,229,504	90,211,633	86,960,520	3,251,113
Utilities environment	10,595,067	10,654,592	10,234,755	419,837
Transportation	-	-	-	-
Economic environment	5,700,484	6,168,884	5,430,955	737,929
Mental and physical health	110,080	110,080	108,064	2,016
Culture and recreation	823,971	830,927	816,411	14,516
Capital outlay	934,878	1,142,475	905,477	236,998
Debt service:	-	-	-	-
Interest	286,386	220,586	100,902	119,684
Total expenditures	129,165,650	132,247,282	127,492,814	4,754,468
Excess resources over expenditures	34,376,102	33,135,962	34,763,688	1,627,726
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	2,855,987	2,855,987
Collection of revolving loans	-	-	-	-
Transfers in	-	-	129,534	129,534
Transfers out	(35,379,668)	(35,299,668)	(34,870,813)	428,855
Total other financing sources (uses)	(35,379,668)	(35,299,668)	(31,885,292)	3,414,376
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(1,003,566)	(2,163,706)	2,878,396	5,042,102
Other changes in fund balance				
Prior period adjustment	(953,125)	(953,125)	(953,125)	(1,906,250)
Fund Balance - beginning	34,172,677	34,172,677	34,172,677	-
Fund Balance - ending	$ 32,215,986	$ 31,055,846	$ 36,097,948	$ 3,135,852

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Code Enforcement Fund
For the Fiscal Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ 5,665	$ 5,665
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	1,114,474	1,114,474	1,009,623	(104,851)
Fines and forfeitures	-	-	-	-
Miscellaneous	70,500	70,500	102,900	32,400
Total resources	1,184,974	1,184,974	1,118,188	(66,786)
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	1,413,641	1,426,453	1,358,084	68,369
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	20,000	20,000	-	20,000
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	1,433,641	1,446,453	1,358,084	88,369
Excess resources over expenditures	(248,667)	(261,479)	(239,896)	21,583
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	274,350	274,350	247,224	(27,126)
Transfers out	-	-	-	-
Total other financing sources (uses)	274,350	274,350	247,224	(27,126)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	25,683	12,871	7,328	(5,543)
Other changes in fund balance				
Prior period adjustment	-	-	(4,371)	(4,371)
Fund Balance - beginning	171,318	171,318	171,318	-
Fund Balance - ending	$ 197,001	$ 184,189	$ 174,275	$ (9,914)

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Library Fund
For the Fiscal Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ 5	$ 5	$ -	$ (5)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	30,000	30,000	26,897	(3,103)
Fines and forfeitures	235,000	235,000	205,966	(29,034)
Miscellaneous	62,050	62,050	101,816	39,766
Total resources	327,055	327,055	334,679	7,624
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	7,592,166	7,592,166	7,480,043	112,123
Capital outlay	880,541	880,541	855,357	25,184
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	8,472,707	8,472,707	8,335,400	137,307
Excess resources over expenditures	(8,145,652)	(8,145,652)	(8,000,721)	144,931
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	7,923,397	7,923,397	7,938,397	15,000
Transfers out	(11,616)	(11,616)	(11,616)	-
Total other financing sources (uses)	7,911,781	7,911,781	7,926,781	15,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(233,871)	(233,871)	(73,940)	159,931
Other changes in fund balance				
Prior period adjustment	-	-	(34,669)	(34,669)
Fund Balance - beginning	1,051,754	1,051,754	1,051,754	-
Fund Balance - ending	$ 817,883	$ 817,883	$ 943,145	$ 125,262

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Under Freeway Parking Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	137,400	137,400	139,569	2,169
Total resources	137,400	137,400	139,569	2,169
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	130,918	130,918	78,951	51,967
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	58,750	58,750	-	58,750
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	189,668	189,668	78,951	110,717
Excess resources over expenditures	(52,268)	(52,268)	60,618	112,886
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(52,268)	(52,268)	60,618	112,886
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	464,136	464,136	464,136	-
Fund Balance - ending	$ 411,868	$ 411,868	$ 524,754	$ 112,886

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Parking Facilities Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total resources	-	-	-	-
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	-	-	-
Excess resources over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	-	-
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	390	390	390	-
Fund Balance - ending	$ 390	$ 390	$ 390	$ -

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Municipal Art Project Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	2,500	2,500	-	(2,500)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	15,000	15,000	-	(15,000)
Total resources	17,500	17,500	-	(17,500)
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	17,500	17,500	4	17,496
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	17,500	17,500	4	17,496
Excess resources over expenditures	-	-	(4)	(4)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	(4)	(4)
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	5,411	5,411	5,411	-
Fund Balance - ending	$ 5,411	$ 5,411	$ 5,407	$ (4)

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Capital Improvement Program Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	555	555
Total resources	-	-	555	555
EXPENDITURES				
General government	-	-	29	(29)
Public safety	-	-	-	-
Utilities environment	-	-	2	(2)
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	60,910	-	60,910
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	60,910	31	60,879
Excess resources over expenditures	-	(60,910)	524	61,434
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(60,910)	524	61,434
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	41,187	41,187	41,187	-
Fund Balance - ending	$ 41,187	$ (19,723)	$ 41,711	$ 61,434

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Hope Acquisition Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	3,851	3,851
Total resources	-	-	3,851	3,851
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	20,000	20,000	51,577	(31,577)
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	100,000	100,000	40,945	59,055
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	120,000	120,000	92,522	27,478
Excess resources over expenditures	(120,000)	(120,000)	(88,671)	31,329
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	20,000	20,000	-	(20,000)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	20,000	20,000	-	(20,000)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(100,000)	(100,000)	(88,671)	11,329
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	559,812	559,812	559,812	-
Fund Balance - ending	$ 459,812	$ 459,812	$ 471,141	$ 11,329

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Housing Trust Grant Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	2,853	2,853
Total resources	-	-	2,853	2,853
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	5,000	5,000	-	5,000
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	5,000	5,000	-	5,000
Excess resources over expenditures	(5,000)	(5,000)	2,853	7,853
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	5,000	5,000	-	(5,000)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	5,000	5,000	-	(5,000)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	2,853	2,853
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	214,679	214,679	214,679	-
Fund Balance - ending	$ 214,679	$ 214,679	$ 217,532	$ 2,853

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
JTPA Private Industry Council Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	6,367	6,367	-	(6,367)
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	179	179
Total resources	6,367	6,367	179	(6,188)
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	6,367	6,367	-	6,367
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	6,367	6,367	-	6,367
Excess resources over expenditures	-	-	179	179
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	179	179
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	11,096	11,096	11,096	-
Fund Balance - ending	$ 11,096	$ 11,096	$ 11,275	$ 179

Schedule of Revenues, Expenditues, and Changes in Fund Balance
Budget and Actual
Cumulative Reserve Fund
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
RESOURCES				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total resources	-	-	-	-
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Utilities environment	-	-	-	-
Transportation	-	-	-	-
Economic environment	-	-	-	-
Mental and physical health	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	-	-	-
Excess resources over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Collection of revolving loans	-	-	-	
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	-	-
Other changes in fund balance				
Prior period adjustment	-	-	-	-
Fund Balance - beginning	22,569	22,569	22,569	-
Fund Balance - ending	$ 22,569	$ 22,569	$ 22,569	$ -

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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