



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

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

### **City of Spokane Valley**

**Spokane County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 22, 2014**

**Report No. 1012653**





## Washington State Auditor Troy Kelley

September 22, 2014

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

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

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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Spokane County  
January 1, 2013 through December 31, 2013**

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# Federal Summary

## City of Spokane Valley Spokane County January 1, 2013 through December 31, 2013

The results of our audit of the City of Spokane Valley 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 reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

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

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

**City of Spokane Valley  
Spokane County  
January 1, 2013 through December 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, Spokane County, Washington, as of and for the year ended December 31, 2013, 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 15, 2014. The prior year partial comparative information has been derived from the City's 2012 basic financial statements, on which we issued our report dated September 17, 2013.

## ***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.

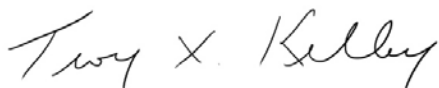
## ***COMPLIANCE AND OTHER MATTERS***

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 15, 2014

# **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 Valley  
Spokane County  
January 1, 2013 through December 31, 2013**

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

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

We have audited the compliance of the City of Spokane Valley, Spokane County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2013. 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.



### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***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.

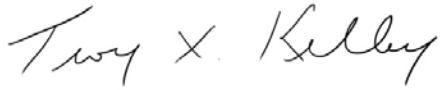
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 15, 2014

# **Independent Auditor's Report on Financial Statements**

## **City of Spokane Valley Spokane County January 1, 2013 through December 31, 2013**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

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

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane Valley, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Report on Summarized Comparative Information***

The prior year partial comparative information has been derived from the City's 2012 financial statements and, in our report dated September 17, 2013, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2012, from which such partial information was derived.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23, budgetary comparison information on pages 64 through 65 and information on postemployment benefits other than pensions on page 66 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.

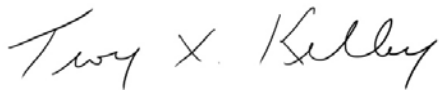
#### ***Supplementary and Other Information***

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 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 15, 2014

## **Financial Section**

### **City of Spokane Valley Spokane County January 1, 2013 through December 31, 2013**

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

#### ***BASIC FINANCIAL STATEMENTS***

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities – 2013  
Statement of Net Position – Proprietary Funds – 2013  
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Notes to Financial Statements – 2013

#### ***REQUIRED SUPPLEMENTARY INFORMATION***

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Street Fund – 2013  
Other Post-Employment Benefits (OPEB) – Schedule of Funding Progress (Six Year  
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#### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

# **CITY OF SPOKANE VALLEY**

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

### **For the Year Ended December 31, 2013**

As management of the City of Spokane Valley, Washington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2013. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in thousands of dollars. Also, this discussion contains comparative analysis based on information from the prior year.

### **FINANCIAL HIGHLIGHTS**

The key financial highlights for 2013 are as follows:

The City of Spokane Valley's financial position improved. At the end of the current fiscal year, assets exceeded liabilities by \$133,398 thousand (*net position*). Of this amount, \$48,399 thousand represents the primary government's unrestricted net position, which may be used and is available to meet the City's ongoing activities and obligations to the citizens and creditors.

The City of Spokane Valley's total net position from Governmental and Business-type activities increased \$4,702 thousand or 3.7% from the prior fiscal year, primarily explained by revenues continuing to outpace expenditures and the current year's increase in the City's Net Investment in capital assets.

At the close of the current fiscal year, the City of Spokane Valley's governmental funds reported combined fund balances of \$46,344 thousand, an increase of \$1,583 thousand in comparison with the prior year. Approximately 62.7% of this amount or \$29,070 thousand (*unassigned fund balance*) is available for spending at the City's discretion.

Also, at the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$29,070 thousand, or approximately 84.9% of the total general fund expenditures, and the net change in actual fund balance decreased by \$(5,263) thousand during the current fiscal year.

Total Long-term liabilities decreased by \$224 thousand to \$7,902 thousand during the current fiscal year; primarily due to annual scheduled debt principal payments.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

The City maintains sixteen individual governmental funds. Information on the City’s four major governmental funds; General Fund, Street Fund, Civic Buildings Capital Projects Fund, and Capital Reserve Fund are presented separately in the governmental fund balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

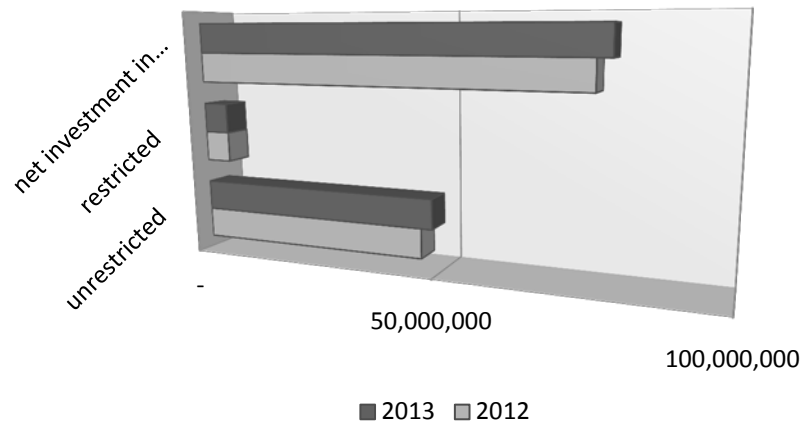
**Statement of net position** – As noted earlier, net position over time, may serve as a useful indicator of the City of Spokane Valley’s financial position. The City’s total assets exceeded total liabilities by \$133,398 thousand as of December 31, 2013. The following table summarizes and compares the City’s net position for 2013 and 2012 (*see Table 1, below*):

<i>Table 1</i>	<b>City of Spokane Valley's Net Position</b> (amounts in thousands)					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 55,116	\$ 55,885	\$ 3,096	\$ 3,577	\$ 58,212	\$ 59,462
Capital assets (net of depreciation)	83,388	82,292	4,176	2,875	87,564	85,167
<b>Total assets</b>	<b>138,504</b>	<b>138,177</b>	<b>7,272</b>	<b>6,452</b>	<b>145,776</b>	<b>144,629</b>
Long-term liabilities	7,901	8,126	-	-	7,901	8,126
Other liabilities	4,034	6,820	412	989	4,446	7,809
<b>Total liabilities</b>	<b>11,935</b>	<b>14,946</b>	<b>412</b>	<b>989</b>	<b>12,347</b>	<b>15,935</b>
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>31</b>	<b>-</b>
Net position:						
Net investment in capital, assets	75,837	74,478	4,176	2,875	80,013	77,353
Restricted	4,986	5,103	-	-	4,986	5,103
Unrestricted	45,746	43,650	2,653	2,589	48,399	46,239
<b>Total net position</b>	<b>\$ 126,569</b>	<b>\$ 123,231</b>	<b>\$ 6,829</b>	<b>\$ 5,464</b>	<b>\$ 133,398</b>	<b>\$ 128,695</b>

In this case, the Primary Governments assets exceeded liabilities by \$133,398 thousand (\$126,569 thousand in governmental activities and \$6,829 in business activities) as of December 31, 2013. By far, the largest portion of the City’s net position (\$80,013 thousand or 60.0%), reflects its investment in capital assets ( e.g., land and improvements, buildings and building improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Spokane Valley uses these capital assets to provide a variety of services to its citizens. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The majority of these capital assets were donated by Spokane County at the time of incorporation in 2003. An additional portion (3.7%) of the City of Spokane Valley’s net position represents restricted resources that are subject to external restrictions on how they may be used. The remaining balance of \$48,399 thousand or 36.3% is unrestricted and may be used to meet the city’s ongoing obligations to citizens and creditors.

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

## City of Spokane Valley's Net Position December 31, 2013 and 2012



As highlighted earlier, the City of Spokane Valley's total net position increased by \$4,702 thousand or 3.7% from the prior year. This is primarily explained by revenues outpacing expenditures. More discussion will follow for the overall increase in net position in the sections for governmental-type and business-type activities.

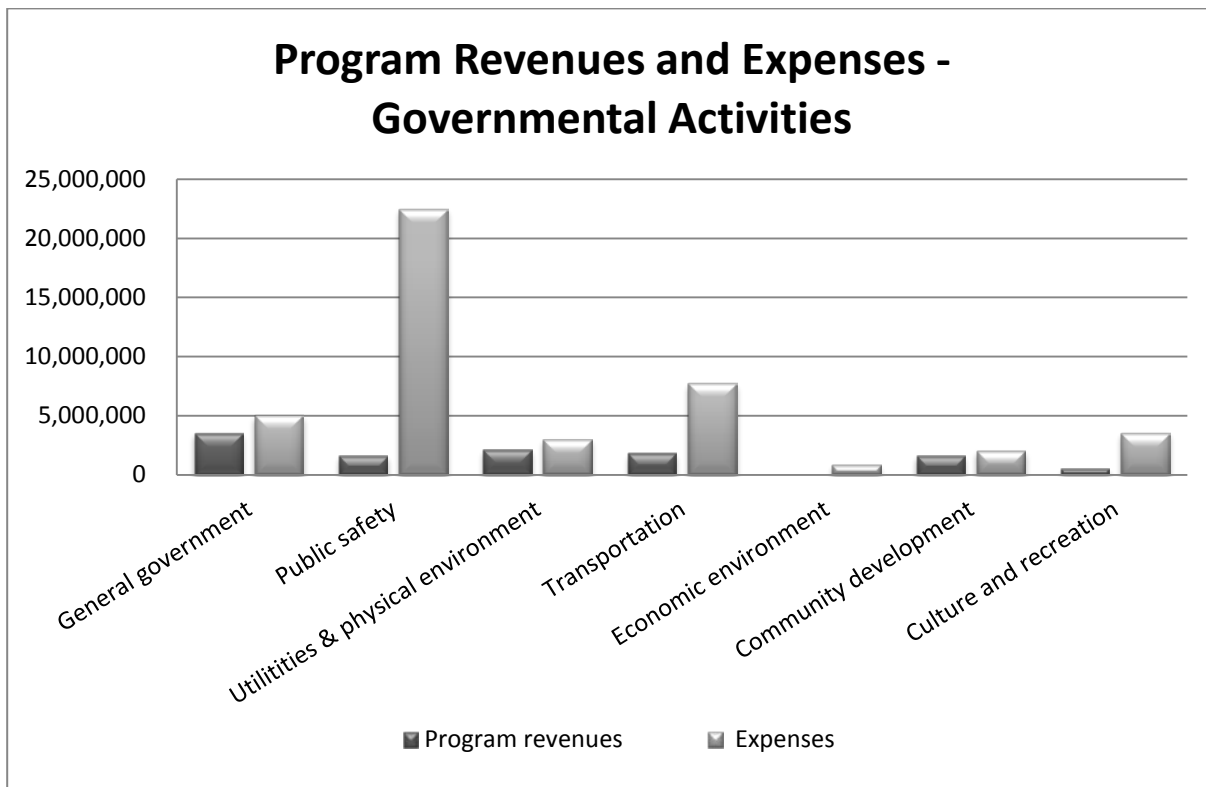
**Governmental-type Activities** – During the current fiscal year total net position for governmental activities increased by \$3,337 thousand from the prior year for an ending balance of \$126,568 thousand. The increase in the overall net position of governmental activities is the result of management taking various steps (e.g., increasing rates for certain revenue sources like charges for services, delaying certain nonrecurring expenses, and reducing expenses related to non-essential ongoing programs in the general government and community development functions) to achieve such positive effects on the governmental activities ending net position. The City's capital grants and operating grants and contribution revenues from Federal and State sources made up the fourth largest sources of program revenue combined, \$4,465 thousand or 9.3% of total governmental activities revenues. The major recipients of intergovernmental program revenues were Public Safety, Transportation, Utilities and Physical Environment, General Government, and Culture & Recreation functions of the primary government. Property tax general revenues in the governmental funds account for \$10,886 thousand of the \$47,979 thousand total revenues (less transfers) for governmental-type activities, or 22.7% of total revenues, and the general fund property tax revenues increased by \$84 thousand. Sales Tax general revenue accounted for approximately \$18,721 thousand or 39.1% of total revenues in year 2013, the largest single source of revenue for the City of Spokane Valley. Excise and other taxes received were Real Estate Excise Taxes of \$1,322 thousand, Liquor Board Excise Tax of \$121 thousand, Utility Phone Tax of \$2,563 thousand, Leasehold Excise Taxes of \$7 thousand, Gambling Taxes of \$528 thousand, Hotel/Motel Taxes of \$519 thousand and Motor Fuel Taxes of \$1,876 thousand.

The Transportation function accounted for \$7,714 thousand of the \$44,656 thousand in total expenses for governmental activities, or 17.3% of the total in expenses. The largest function was Public Safety, accounting for \$22,486 thousand and representing 50.4% of total governmental expenses and an increase of 3.5% in contracted Law Enforcement services compared to the prior year (*see table 2, below*).

**City of Spokane Valley's Changes in Net Position**  
as of December 31, 2013 and 2012 (amounts in thousands)

**Table 2**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>% Change</b>
	2013	2012	2013	2012	2013	2012	2013-2012
<b>Revenues</b>							
Program revenues							
Charges for services	\$ 6,825	\$ 6,581	\$ 1,873	\$ 1,834	\$ 8,698	\$ 8,415	3.4%
Operating grants & contributions	787	1,260	956	622	1,743	1,882	-7.4%
Capital grants & contributions	3,679	5,038	620	50	4,299	5,088	-15.5%
General revenues							
Taxes	36,605	35,442	-	-	36,605	35,442	3.3%
Other	83	116	2	3	85	119	-28.6%
<b>Total revenues</b>	<b>47,979</b>	<b>48,437</b>	<b>3,451</b>	<b>2,509</b>	<b>51,430</b>	<b>50,946</b>	<b>1.0%</b>
<b>Expenses</b>							
General government	4,644	4,622	-	-	4,644	4,622	0.5%
Public safety	22,486	21,722	-	-	22,486	21,722	3.5%
Utilities & physical environment	3,029	2,940	-	-	3,029	2,940	3.0%
Transportation	7,714	8,574	-	-	7,714	8,574	-10.0%
Economic environment	849	797	-	-	849	797	6.5%
Community development	2,031	1,894	-	-	2,031	1,894	7.2%
Culture and recreation	3,534	3,458	-	-	3,534	3,458	2.2%
Interest on long term debt	369	376	-	-	369	376	-1.9%
Aquifer protection area	-	-	306	-	306	-	100.0%
Stormwater management	-	-	1,767	1,218	1,767	1,218	45.1%
<b>Total expenses</b>	<b>44,656</b>	<b>44,383</b>	<b>2,073</b>	<b>1,218</b>	<b>46,729</b>	<b>45,601</b>	<b>2.5%</b>
Increase (decrease) in net position before transfers	3,323	4,054	1,378	1,291	4,701	5,346	-12.1%
Transfers In (out)	13	128	(13)	(128)	-	-	0.0%
Increase (decrease) in net position	3,336	4,182	1,365	1,163	4,701	5,346	-12.1%
<b>Net position - beginning</b>	<b>123,232</b>	<b>118,887</b>	<b>5,464</b>	<b>4,301</b>	<b>128,696</b>	<b>123,188</b>	
<b>Prior period adjustment</b>		<b>163</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>163</b>	
<b>Net position - ending</b>	<b>\$ 126,568</b>	<b>\$ 123,232</b>	<b>\$ 6,829</b>	<b>\$ 5,464</b>	<b>\$ 133,397</b>	<b>\$ 128,697</b>	



Transportation activity capital grants decreased in the current year by \$(1,322) thousand; these contributions are used to fund the on-going general government capital outlays of \$6,826 thousand, or 15.0% of the total for governmental funds expenditure activity (*see the preceding graph*).

**Business-type Activities** – For the City of Spokane Valley’s business-type activities, the results for the current fiscal year were positive in that the overall net position increased to reach an ending balance of \$6,829 thousand. The increase in net position for business-type activities (stormwater and aquifer protection funds) was \$1,365 or 25.0% from the prior fiscal year. Additional revenues collected from other Governmental Granting Agencies to the City of Spokane Valley resulted in an increase in total intergovernmental revenues of \$334 thousand for the current fiscal year. In both business-type funds, the major program revenue sources were *charges for services* of \$1,869 thousand and *intergovernmental revenues* of \$1,006 thousand. The primary source of revenues is a Stormwater management fee imposed upon real property and the Aquifer area protection fee mandated by the voting public.

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

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

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

As of December 31, 2013, the City’s total governmental funds reported a combined ending fund balance of \$46,344 thousand, a net increase of \$1,583 thousand in comparison with the prior year. Approximately 62.8% of this

amount or \$29,070 thousand is composed of *unassigned fund balance*, which is available for spending at the City's discretion. The City's remainder or residual fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not spendable in form (\$56 thousand), 2) restricted for particular purposes (\$4,929 thousand), 3) committed for particular purposes (\$504 thousand), or 4) assigned for particular purposes (\$11,785 thousand).

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

**General Fund Components of Fund Balance**  
**December 31, 2013 & 2012**

**Table 3**

	<b>Fiscal Year</b>	
	<b>2013</b>	<b>2012</b>
Unassigned	\$ 29,070,514	\$ 34,389,494
Assigned	-	-
Restricted	204,147	180,040
Nonspendable	56,185	24,015
<b>Total fund balances</b>	<b>\$ 29,330,846</b>	<b>\$ 34,593,549</b>

Sales and property taxes are the major revenue sources. At the end of 2013, unassigned fund balance was \$29,070 thousand, while total fund balance decreased to \$29,331 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total governmental funds expenditures. Unassigned fund balance in the general fund represents approximately 63.7% of the total governmental funds expenditures, while total general fund balance of \$29,331 thousand represents approximately 64.3% of that same amount in total governmental funds expenditures *See table 3.*

**All Remaining Governmental Funds Components of Fund Balance**  
**December 31, 2013 & 2012**

**Table 4**

	<b>Fiscal Year</b>	
	<b>2013</b>	<b>2012</b>
Assigned	\$ 11,784,861	\$ 4,765,177
Committed	503,565	502,888
Restricted	4,725,257	4,900,002
Nonspendable	-	-
<b>Total fund balances</b>	<b>\$ 17,013,683</b>	<b>\$ 10,168,067</b>

### Major Governmental Funds

**The General Fund** – The fund balance of the City of Spokane Valley's general fund decreased by \$(5,263) thousand, compared to last year, for the fiscal year ending December 31, 2013. In the Budget to Actual Schedule, revenues trended slightly higher than expected in the 2013 budget by \$1,883 thousand, while the total expenditures were \$843 thousand (including transfers) less than the amended budget. Ultimately, the General Fund in the Governmental funds statement reports an excess of revenues over expenditures by approximately \$2,849 thousand compared to the last fiscal year of 2012 of \$3,366 thousand. The decrease is partly due to the funding of street preservation projects in the current year.

**The Street Fund** – had an ending fund balance of \$2,063 thousand, a decrease of \$(165) thousand compared to the prior year. The primary source of revenues for the Street fund is the Telephone Utility taxes of \$2,563 thousand, and the Motor Vehicle Gas tax of \$1,868 thousand, both slightly changed from the prior year (approximately -6.3% and 1.1% respectively). Expenditures (including transfers out) outpaced revenues, which contributed to the slight decrease in ending fund balance compared to last year.

**The Civic Buildings Capital Projects Fund** – has an ending fund balance of \$1,102 thousand. Capital expenditures were approximately \$10 thousand for the year as the Gateway project at West Thierman was completed. Actual revenue and expenditures were both greater than final budgeted projections.

**Capital Reserve Fund** – had an ending fund balance of \$7,742 thousand. Capital expenditures were approximately \$58 thousand. Actual expenditures were \$23 thousand less than the final budgeted projections. Overall, the variance in the net change in fund balance was less than the final budgeted projections.

**Proprietary Funds** - The City's enterprise funds, **Stormwater Management** and **Aquifer Protection Area** provide the same type of information found in the government-wide financial statements, and are also *major proprietary funds*. Unrestricted net position of the Stormwater Management Fund at December 31, 2013 was \$2,319 thousand and for the Aquifer Area Protection fund was \$334 thousand.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

*Original budget compared to final budget:* By State law, Title 35A of the Revised Code of Washington (RCW) requires all cities to prepare and adopt a balanced budget prior to the beginning of the City's fiscal year; the annual operating budget for the City is effective the first day of January. The City Council amended the original budget revenue and expenditures twice during 2013.

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

<b>Revenue Source</b>	<b>Final Estimated revenues</b>	<b>Actual revenues</b>	<b>difference</b>
Taxes	\$ 28,836,000	\$ 30,083,368	\$ 1,247,368
Licenses and permits	1,999,000	2,427,635	428,635
Intergovernmental revenues	1,692,800	1,951,671	258,871
Charges for services	714,900	987,788	272,888
Fines and forfeitures	626,200	543,662	(82,538)
Miscellaneous	1,232,700	1,019,654	(213,046)

In the General Fund, the variance between actual expenses and the final amended budget was a savings in expenditures of \$843 thousand; giving the City a positive variance in excess of revenues over expenditures of \$2,726 thousand for 2013. Actual negative revenue variances in miscellaneous revenues of (\$213) thousand and (\$83) thousand in fines and forfeitures coupled with revenue increases in Tax revenue of \$1,247 thousand, licenses and permits of \$429 thousand, charges for services of \$273 thousand, and intergovernmental revenues of \$259 thousand, contributed overall in reducing the impact of a negative (\$8,112 thousand) in actual net transfers in-(out); resulting in a (deficit) net change in fund balance of (\$5,263) thousand for the fiscal year of 2013.

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

**Capital Assets:** The City of Spokane Valley's investment in capital assets for its governmental and business type activities as of December 31, 2013, amounts to \$87,564 thousand (net of depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and construction in progress. The total increase in the city's investments in capital assets for the current fiscal year was \$2,397 thousand or 2.8% (*see table 5, following*).

Table 5:

	Governmental Activities		Business-type Activities		Total		Total % Change
	2013	2012	2013	2012	2013	2012	2013-2012
Land	\$ 7,045	\$ 6,956	\$ -	\$ -	\$ 7,045	\$ 6,956	1.3%
Buildings	9,735	10,058	341	354	10,076	10,412	-3.2%
Improvements other than Buildings	5,761	6,292	-	-	5,761	6,292	-8.4%
Infrastructure	55,110	54,678	3,639	1,224	58,749	55,902	5.1%
Machinery and Equipment	385	480	50	79	435	559	-22.2%
Construction in Progress	5,352	3,828	146	1,218	5,498	5,046	9.0%
<b>Total</b>	<b>\$ 83,388</b>	<b>\$ 82,292</b>	<b>\$ 4,176</b>	<b>\$ 2,875</b>	<b>\$ 87,564</b>	<b>\$ 85,167</b>	<b>2.8%</b>

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

- Construction in Progress increased by 9.0% or \$452 thousand, overall due to several major street and infrastructure projects being started in 2013 along with ongoing work on the CIP projects in the Aquifer Protection Area Fund, a business type activity.
- There was a total of \$435 thousand or a decrease of (22.2%) in Machinery and Equipment for fiscal year 2013 due mostly to the depreciation of the assets.
- Infrastructure increased 5.1% or \$2,847 thousand for 2013 due to the completion of several street and infrastructure projects started in prior years as well as continued implementation of the pavement preservation plan
- Overall change in capital assets for 2013 increased by 2.8% compared to the prior year of 2012.

Additional information on the City's capital assets can be found in Note 6 (Capital Assets) to the financial statements.

**Long-Term Liabilities** – At December 31, 2013, the City had total Limited Tax General Obligation debt outstanding of \$7,435 thousand. This amount is backed by the full faith and credit of the City of Spokane Valley with debt service funded by general government revenues and contributions from the Public Facilities District. The City's long-term liabilities decreased by (\$224) thousand or (2.7%) during fiscal year 2013. (*See table 6, below*).

Table 6

#### City of Spokane Valley's Outstanding Debt

(amounts in 000)

	Governmental Activities		Total Percentage Change
	2013	2012	2013-2012
General obligation bonds	\$ 7,435	\$ 7,690	-3.3%
Bond premium	117	124	-5.6%
Compensated absences	350	311	12.5%
<b>Total</b>	<b>\$ 7,902</b>	<b>\$ 8,125</b>	<b>-2.7%</b>

In addition to the General obligation bonded debt and premium, the City's long-term liabilities also include compensated absences (vacation and sick leave accruals). Additional information on the City's long-term debt can be found in **Note 11 (General Long-Term Liabilities)** in the notes to the financial statements.

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

The 2012 assessed valuation of the City of Spokane Valley for the levy year of 2013, for purposes of determining the legal debt margin is; \$6,921,825,295. Remaining debt capacities for the City under general voted and non-voted purposes (2.5%) is limited to: \$165,260,767

The City of Spokane Valley maintains an Aa3 rating from Moody's for its non-voted general obligation debt. Additional information regarding debt limitations and capacities can be found in **Note 11 (Legal Debt Margin)** in the notes to the financial statements.



### **ECONOMIC FACTORS**

The following economic factors currently affect the City of Spokane Valley and were considered in developing the 2013-2014 fiscal year budgets.

The outlook for the City of Spokane Valley economy was projected based on statistics generated in Spokane County. There is estimated to be over 4,000 businesses located in Spokane Valley with estimated taxable retail sales of \$1.88 billion for 2013. This represents a 22% increase since 2004 and a (4%) decrease since 2007. The City of Spokane Valley received \$18,721 thousand, an increase of \$1,199 thousand from the prior year, in sales tax dollars for 2013.

Overall, Spokane County gained about 250 jobs in 2013, giving up nearly 4,650 jobs during the last two prior years (2012 & 2011). The current year's increase in jobs left the county with an estimated average of 210,300 jobs for the year, which is down more than 8,200 jobs from the peak in 2008. Despite the modest gain of jobs in 2013, the Spokane County area wide unemployment rate fell to 7.9%, down (.09%) from the previous year. Spokane County's fastest growing non-farm employment sector is professional and business services, this sector is predicted to grow the most through 2020. Population growth has been steady within the City of Spokane Valley, increasing to 91,490 and growing over 10% since incorporation in 2003.

The total number of Single family residential building permits Spokane County area -wide (including the City of Spokane and the City of Spokane Valley) increased to 1009 in 2013 (up from 733 permits issued in 2012). Additionally, total 2013 nonresidential building permits for the City of Spokane Valley jumped to 91 permits, an increase of 60 from the prior year.

Housing prices and sales increased for the second straight year in the Spokane County area for 2013. The median price of a home in Spokane County area (inclusive the City of Spokane and the City of Spokane Valley) increased approximately \$5,000 to \$174,200 in 2013, which is roughly (\$23,000) lower than the U.S. median price. The 2013 average reported price of a home in the area was \$182,690, up 3% from 2012 and following an increase of nearly 6% that year. The City of Spokane Valley's assessed value increased 3.6% to 7.2 billion in 2013. The City's property tax levy rate for 2013 was near \$1.578 per thousand of assessed value.

The City of Spokane Valley contracts with Spokane County and several public service districts for many city services including street maintenance, public safety, library, and fire protection. This allows the City to hold the number of full-time employees to 87.25. Employee salaries and related benefits are the leading cost for much of the city's operations. In a 2012 study, a comparison of 29 cities with a populations of 100,000 or less was conducted within the State of Washington and the City of Spokane Valley had the fewest number of employees based on Washington cities with a population greater than 50,000 and over.

No significant general fund tax increases were implemented in 2013, nor are any anticipated for the 2014 general fund budget. A telephone utility tax of 6% was collected during 2013 in the City's Street Fund.

During the fiscal year of 2013, unassigned fund balance in the general fund was \$29,070,514. The City of Spokane Valley's total recurring 2014 general fund expenditure budget is \$36,823,010 as compared to \$35,312,674 in 2013. This means that the general fund recurring expenditure budget only increased by 4.28% as compared to 2013. The 2014 budget presumes service levels that are consistent with those provided in 2013 with neither significant enhancements nor reductions in any area of operations.

**REQUEST FOR INFORMATION**

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

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

**City of Spokane Valley, Washington**  
**Statement of Net Position**  
**December 31, 2013**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 48,693,814	\$ 2,783,126	\$ 51,476,940
Taxes receivable	4,741,007	44,790	4,785,797
Taxes delinquent-receivable	164,697	23,591	188,288
Accounts receivable, (net)	472,916	51,492	524,408
Interest receivable	5,083	124	5,207
Grants receivable	711,958	192,731	904,689
Due from other funds	270,000	-	270,000
Prepays	56,185	-	56,185
Capital Assets:			
Land	7,044,498	-	7,044,498
Depreciable assets, (net)	70,991,641	4,030,564	75,022,205
Construction in progress	5,352,394	145,818	5,498,212
<b>Total Assets</b>	<b>\$ 138,504,193</b>	<b>\$ 7,272,236</b>	<b>\$ 145,776,429</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,589,285	\$ 168,224	\$ 1,757,509
Interest payable	29,819	-	29,819
Due to other funds	270,000	-	270,000
Deposits and other payables	1,683,873	88,138	1,772,011
Other accrued liabilities	461,075	23,518	484,593
Compensated absences	-	23,133	23,133
Unearned revenues	-	108,765	108,765
Long-term liabilities:			
Due within one year	315,819	-	315,819
Due in more than one year	7,585,864	-	7,585,864
<b>Total Liabilities</b>	<b>11,935,735</b>	<b>411,778</b>	<b>12,347,513</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Grant receipts	-	31,043	31,043
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>31,043</b>	<b>31,043</b>
<b>NET POSITION</b>			
Net Investment in capital assets	75,836,715	4,176,382	80,013,097
Restricted for:			
Capital projects, REET, roads & streets	4,416,459	-	4,416,459
Parks & recreation programs	600	-	600
Hotel/motel tourism promotion	236,927	-	236,927
Comcast PEG, communications	195,884	-	195,884
Law enforcement grants	7,663	-	7,663
Trails & paths	71,871	-	71,871
Leases & subscriptions	56,185	-	56,185
Unrestricted :			
Governmental type activities	45,746,154	-	45,746,154
Business type activities	-	2,653,033	2,653,033
<b>Total Net Position:</b>	<b>126,568,458</b>	<b>6,829,415</b>	<b>133,397,873</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position:</b>	<b>\$ 138,504,193</b>	<b>\$ 7,272,236</b>	<b>\$ 145,776,429</b>

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

**City of Spokane Valley, Washington**  
**Statement of Activities**  
**For the Year Ended December 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 4,644,494	\$ 3,007,699	\$ 437,120	\$ 92,642	\$ (1,107,033)	\$ -	\$ (1,107,033)
Public safety	22,486,052	1,552,930	64,062	-	(20,869,060)	-	(20,869,060)
Utilities and physical environment	3,028,653	98,315	284,993	1,770,550	(874,795)	-	(874,795)
Transportation	7,713,524	14,801	-	1,787,259	(5,911,464)	-	(5,911,464)
Economic environment	848,786	-	-	-	(848,786)	-	(848,786)
Community development	2,030,754	1,614,969	-	-	(415,785)	-	(415,785)
Culture and recreation	3,534,512	536,180	600	28,180	(2,969,552)	-	(2,969,552)
Interest on long-term debt	368,891	-	-	-	(368,891)	-	(368,891)
Total governmental activities	44,655,666	6,824,894	786,775	3,678,631	(33,365,366)	-	(33,365,366)
Business-type activities:							
Aquifer protection area	306,428	150	773,173	570,331	-	1,037,226	1,037,226
Stormwater management	1,766,694	1,873,224	183,040	50,126	-	339,696	339,696
Total business-type activities	2,073,122	1,873,374	956,213	620,457	-	1,376,922	1,376,922
<b>Total primary government</b>	<b>\$ 46,728,788</b>	<b>\$ 8,698,268</b>	<b>\$ 1,742,988</b>	<b>\$ 4,299,088</b>	<b>(33,365,366)</b>	<b>1,376,922</b>	<b>(31,988,444)</b>
<b>General revenues:</b>							
Taxes:							
Property taxes					10,885,803	-	10,885,803
Sales and use taxes					18,720,828	-	18,720,828
Excise taxes					3,328,956	-	3,328,956
Other taxes					3,670,220	-	3,670,220
Interest and investment earnings					82,698	1,992	84,690
<b>Transfers</b>					13,400	(13,400)	-
<b>Total general revenues and transfers</b>					36,701,905	(11,408)	36,690,497
<b>Change in net position</b>					3,336,538	1,365,514	4,702,052
<b>Net position--beginning of year</b>					123,231,920	5,463,901	128,695,821
<b>Net position--ending</b>					\$ 126,568,458	\$ 6,829,415	\$ 133,397,873

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

# City of Spokane Valley, Washington

## Balance Sheet

### Governmental Funds

December 31, 2013

	General	Street	Civic Bldgs	Capital Reserve	Sub-Total
	Fund	Fund	Capital Projects	Fund	Governmental
Assets	Fund	Fund	Fund	Fund	Funds
Cash and cash equivalents	\$ 29,392,658	\$ 2,128,767	\$ 1,849,784	\$ 7,754,198	\$ 41,125,407
Taxes receivable	4,251,864	516,089	-	-	4,767,953
Accounts receivable, (net)	449,943	22,973	-	-	472,916
Interest receivable	4,158	188	110	-	4,456
Due from other funds	-	-	-	-	-
Grants receivable	7,663	-	-	-	7,663
Prepays	56,185	-	-	-	56,185
<b>Total Assets</b>	<b>\$ 34,162,471</b>	<b>\$ 2,668,017</b>	<b>\$ 1,849,894</b>	<b>\$ 7,754,198</b>	<b>\$ 46,434,580</b>
<b>Liabilities</b>					
Liabilities:					
Accounts payable	566,388	353,312	-	11,899	931,599
Accrued wages and benefits payable	390,791	38,686	-	-	429,477
Interest payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits and other payables	1,403,805	-	-	-	1,403,805
Retainage payable	33,259	59,813	3,944	-	97,016
Unearned revenues	2,437,383	152,973	744,047	-	3,334,403
<b>Total Liabilities</b>	<b>4,831,625</b>	<b>604,784</b>	<b>747,991</b>	<b>11,899</b>	<b>6,196,299</b>
<b>Deferred Inflows of Resources</b>					
Unavailable traffic mitigation revenue	-	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>					
Nonspendable:					
Operating leases & subscriptions	\$ 56,185	\$ -	\$ -	\$ -	\$ 56,185
Restricted for:					
Comcast PEG contributions	195,884	-	-	-	195,884
Hotel/motel tourism promotion	-	-	-	-	-
Law enforcement JAG & ARRA grants	7,663	-	-	-	7,663
Motor vehicle fuel tax roads & streets	-	2,063,233	-	-	2,063,233
Street capital construction & grants	-	-	-	-	-
Trails & paths	-	-	-	-	-
Capital projects REET 1&2 roads & streets	-	-	-	-	-
Parks & recreation activities	600	-	-	-	600
Committed to:					
Winter weather operations	-	-	-	-	-
Assigned to:					
Civic bldg capital replacement	-	-	1,101,903	-	1,101,903
Governmental type Capital projects	-	-	-	7,742,299	7,742,299
Civic facilities capital replacement	-	-	-	-	-
Parks & recreation capital improvements	-	-	-	-	-
Street capital improvements p&m	-	-	-	-	-
Unassigned	29,070,514	-	-	-	29,070,514
<b>Total Fund Balances</b>	<b>29,330,846</b>	<b>2,063,233</b>	<b>1,101,903</b>	<b>7,742,299</b>	<b>40,238,281</b>
<b>Total Liabilities, deferred inflows of resources, and Fund Balances</b>	<b>\$ 34,162,471</b>	<b>\$ 2,668,017</b>	<b>\$ 1,849,894</b>	<b>\$ 7,754,198</b>	<b>\$ 46,434,580</b>

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

# City of Spokane Valley, Washington

## Balance Sheet

### Governmental Funds

December 31, 2013

	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 6,254,097	\$ 47,379,504
Taxes receivable	137,751	4,905,704
Accounts receivable, (net)	-	472,916
Interest receivable	553	5,009
Due from other funds	270,000	270,000
Grants receivable	704,295	711,958
Prepays	-	56,185
<b>Total Assets</b>	<b>\$ 7,366,696</b>	<b>\$ 53,801,276</b>
<b>Liabilities</b>		
Liabilities:		
Accounts payable	650,821	1,582,420
Accrued wages and benefits payable	31,599	461,076
Interest payable	-	-
Due to other funds	270,000	270,000
Deposits and other payables	-	1,403,805
Retainage payable	183,052	280,068
Unearned revenues	113,454	3,447,857
<b>Total Liabilities</b>	<b>1,248,926</b>	<b>7,445,225</b>
<b>Deferred Inflows of Resources</b>		
Unavailable traffic mitigation revenue	11,522	11,522
<b>Total Deferred Inflows of Resources</b>	<b>11,522</b>	<b>11,522</b>
<b>Fund Balances:</b>		
Nonspendable:		
Operating leases & subscriptions	\$ -	\$ 56,185
Restricted for:		
Comcast PEG contributions	-	195,884
Hotel/motel tourism promotion	236,927	236,927
Law enforcement JAG & ARRA grants	-	7,663
Motor vehicle fuel tax roads & streets	-	2,063,233
Street capital construction & grants	61,827	61,827
Trails & paths	71,871	71,871
Capital projects REET 1&2 roads & streets	2,291,399	2,291,399
Parks & recreation activities	-	600
Committed to:		
Winter weather operations	503,565	503,565
Assigned to:		
Civic bldg capital replacement	-	1,101,903
<b>Governmental type Capital projects</b>	<b>-</b>	<b>7,742,299</b>
Civic facilities capital replacement	1,789,271	1,789,271
Parks & recreation capital improvements	352,779	352,779
Street capital improvements p&m	798,609	798,609
Unassigned	-	29,070,514
<b>Total Fund Balances</b>	<b>6,106,248</b>	<b>46,344,529</b>
<b>Total Liabilities, deferred inflows of resources, and Fund Balances</b>	<b>\$ 7,366,696</b>	<b>\$ 53,801,276</b>

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

**City of Spokane Valley, Washington**  
*Reconciliation of the Balance sheet of Governmental Funds  
To the Statement of Net Position  
December 31, 2013*

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**Total governmental fund balances:** **\$46,344,529**

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

Capital assets used in governmental activities are not financial resources. This amount reflects the initial investment in capital assets and are not reported in the funds. **83,343,440**

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

These revenues consist of:

Sales and use taxes	1,893,416	
Motor fuel taxes	152,906	
Hotel/Motel taxes	25,425	
REET taxes	2,274	
Total		2,074,021

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

Property taxes	408,051	
Gambling taxes	59,147	
Intergovernmental	97,276	
Charges for services	66,837	
Miscellaneous	754,047	
Total		1,385,358

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (29,819)

Internal service funds are used by management to charge the cost of certain activities, such as equipment rental and self insurance, to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 1,352,612

Long-term liabilities, including capital leases payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable	(7,435,000)	
Premium on bond issuance	(116,818)	
Compensated Absences	(349,865)	
Total		(7,901,683)

**Total Net position of Governmental Activities as shown  
on the Statement of Net Position:** **\$126,568,458**

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

# City of Spokane Valley, Washington

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

### Governmental Funds

For the Year Ended December 31, 2013

	General Fund	Street Fund	Civic Bldgs Capital Projects Fund	Capital Reserve Fund	Sub-Total Governmental Major Funds
<b>Revenues</b>					
Taxes	\$ 30,083,368	\$ 2,562,722	\$ -	\$ -	\$ 32,646,090
Licenses and permits	2,427,635	-	-	-	2,427,635
Intergovernmental	1,951,671	2,040,584	-	-	3,992,255
Charges for services	987,788	7,774	-	-	995,562
Fines and forfeitures	543,662	-	-	-	543,662
Investment interest	68,177	2,920	1,771	-	72,868
Miscellaneous	1,019,654	6,928	-	3,180	1,029,762
<b>Total Revenues</b>	<b>37,081,955</b>	<b>4,620,928</b>	<b>1,771</b>	<b>3,180</b>	<b>41,707,834</b>
<b>Expenditures</b>					
Current:					
General government	4,231,733	-	-	-	4,231,733
Public safety	22,429,738	-	-	-	22,429,738
Utilities and physical environment	1,667,454	115,918	-	21,139	1,804,511
Transportation	-	4,170,268	-	-	4,170,268
Economic environment	356,093	-	-	-	356,093
Community development	2,030,754	-	-	-	2,030,754
Culture and recreation	2,599,253	-	-	-	2,599,253
Debt Service:					
Principal retirement	-	-	-	-	-
Interest expense	301	-	-	-	301
Capital Outlay:					
Capital expenditures	61,369	5,978	9,942	57,601	134,890
Construction in progress	855,857	199,505	-	-	1,055,362
<b>Total Expenditures</b>	<b>34,232,552</b>	<b>4,491,669</b>	<b>9,942</b>	<b>78,740</b>	<b>38,812,903</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,849,403</b>	<b>129,259</b>	<b>(8,171)</b>	<b>(75,560)</b>	<b>2,894,931</b>
<b>Other Financing Sources (Uses)</b>					
Transfers In	133,887	27,375	-	7,826,207	7,987,469
Transfers (out)	(8,245,994)	(321,838)	-	(8,348)	(8,576,180)
<b>Total Other Financing Sources (Uses)</b>	<b>(8,112,107)</b>	<b>(294,463)</b>	<b>-</b>	<b>7,817,859</b>	<b>(588,711)</b>
<b>Net Change in Fund Balances (deficit)</b>	<b>(5,262,704)</b>	<b>(165,204)</b>	<b>(8,171)</b>	<b>7,742,299</b>	<b>2,306,220</b>
<b>Fund Balances Beginning of Year</b>	<b>34,593,550</b>	<b>2,228,437</b>	<b>1,110,074</b>	<b>-</b>	<b>37,932,061</b>
	-	-	-	-	-
<b>Fund Balances End of Year</b>	<b>\$ 29,330,846</b>	<b>\$ 2,063,233</b>	<b>\$ 1,101,903</b>	<b>\$ 7,742,299</b>	<b>\$ 40,238,281</b>

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



# City of Spokane Valley, Washington

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2013

	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>		
Taxes	\$ 1,840,705	\$ 34,486,795
Licenses and permits	-	2,427,635
Intergovernmental	3,956,294	7,948,549
Charges for services	100	995,662
Fines and forfeitures	-	543,662
Investment interest	8,648	81,516
Miscellaneous	24,999	1,054,761
<b>Total Revenues</b>	<b>5,830,746</b>	<b>47,538,580</b>
<b>Expenditures</b>		
Current:		
General government	-	4,231,733
Public safety	-	22,429,738
Utilities and physical environment	118,989	1,923,500
Transportation	814	4,171,082
Economic environment	458,904	814,997
Community development	-	2,030,754
Culture and recreation	-	2,599,253
Debt Service:		-
Principal retirement	253,750	253,750
Interest expense	369,273	369,574
Capital Outlay:		-
Capital expenditures	143,929	278,819
Construction in progress	5,491,507	6,546,869
<b>Total Expenditures</b>	<b>6,837,166</b>	<b>45,650,069</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,006,420)</b>	<b>1,888,511</b>
<b>Other Financing Sources (Uses)</b>		
Transfers In	2,263,171	10,250,640
Transfers (out)	(1,980,059)	(10,556,239)
<b>Total Other Financing Sources (Uses)</b>	<b>283,112</b>	<b>(305,599)</b>
<b>Net Change in Fund Balances (deficit)</b>	<b>(723,308)</b>	<b>1,582,912</b>
<b>Fund Balances Beginning of Year</b>	<b>6,829,556</b>	<b>44,761,617</b>
	-	-
<b>Fund Balances End of Year</b>	<b>\$ 6,106,248</b>	<b>\$ 46,344,529</b>

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

**City of Spokane Valley, Washington**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2013*

---

**Net change in fund balances - total governmental funds:** **\$1,582,912**

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

Governmental funds report capital outlays as expenditures.

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

1,051,610

Depreciation	(5,695,946)
Capital outlay	6,825,687
Impaired/retired capital assets	(78,131)

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

261,298

Property taxes	44,244
Sales and use taxes	14,367
Excise taxes	2,783
Other taxes	60,388
Miscellaneous	45,424
Capital-operating grants and contributions	94,092

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of non-current debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.

253,750

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

Compensated absences	(38,503)
Bond principle accrual	1,250
Bond premium expense	7,316
Interest expense	683
	<u>(29,254)</u>

Internal service funds are used by management to charge the costs of certain activities, such as equipment rental and self insurance to the individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

216,223

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

**\$3,336,538**

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

# City of Spokane Valley, Washington

## Statement of Net Position - Proprietary Funds

December 31, 2013 and 2012

	Business-type Activities Enterprise Funds						
	Stormwater Management		Aquifer Protection Area Fund				Governmental Activities Internal Service Funds
	2013	2012	2013	2012	Total Proprietary Funds 2013		2013
Assets							
Current Assets:							
Cash and cash equivalents	\$ 2,380,675	\$ 2,622,642	\$ 402,451	\$ 1,797	\$ 2,783,126	\$	1,314,310
Taxes delinquent-receivable	68,381	76,535	-	-	68,381		-
Accounts receivable, (net)	51,492	-	-	-	51,492		-
Interest receivable	124	194	-	-	124		74
Due from other funds	-	200,000	-	-	-		-
Grants receivable	162,959	9,591	29,772	666,622	192,731		-
Prepays	-	-	-	-	-		-
Total Current Assets	2,663,631	2,908,962	432,223	668,419	3,095,854		1,314,384
Capital Assets:							
Buildings & structures	375,791	375,791	-	-	375,791		-
Machinery and equipment	183,649	183,649	-	-	183,649		48,749
Infrastructure	2,274,354	1,464,409	1,706,217	-	3,980,571		-
Construction in progress	116,756	84,418	29,062	1,133,211	145,818		-
Less accumulated depreciation	(502,338)	(366,252)	(7,109)	-	(509,447)		(3,656)
Total capital assets	2,448,212	1,742,015	1,728,170	1,133,211	4,176,382		45,093
(net of accumulated depreciation)							
Total Assets	\$ 5,111,843	\$ 4,650,977	\$ 2,160,393	\$ 1,801,630	\$ 7,272,236	\$	1,359,477
Liabilities							
Current Liabilities:							
Accounts payable	\$ 124,058	\$ 35,869	\$ 44,166	\$ 5,791	\$ 168,224	\$	6,865
Accrued payroll and benefits payable	23,270	27,332	248	955	23,518		-
Due to other funds	-	-	-	200,000	-		-
Compensated absences	23,133	-	-	-	23,133		-
Deposits and other payables	33,600	33,600	-	-	33,600		-
Retainage payables	30,111	36,895	24,427	-	54,538		-
Unearned revenue	108,765	68,343			108,765		
Total Current Liabilities	342,937	202,039	68,841	206,746	411,778		6,865
Total Liabilities	342,937	202,039	68,841	206,746	411,778		6,865
Deferred Inflows of Resources							
Unavailable Grant receipts	1,271	9,590	29,772	570,331	31,043		-
Total Deferred Inflows of Resource:	1,271	9,590	29,772	570,331	31,043		-
Net Position							
Net investments in capital assets	2,448,212	1,742,015	1,728,170	1,133,211	4,176,382		45,093
Restricted	-	-	-	-	-		-
Unrestricted	2,319,423	2,697,333	333,610	(108,658)	2,653,033		1,307,519
Total Net Position	4,767,635	4,439,348	2,061,780	1,024,553	6,829,415		1,352,612
Total Liabilities and Net Position	\$ 5,111,843	\$ 4,650,977	\$ 2,160,393	\$ 1,801,630	\$ 7,272,236	\$	1,359,477

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

# City of Spokane Valley, Washington

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

### Proprietary Funds

For the Year Ended December 31, 2013 and 2012

	Business-type Activities Enterprise Funds						
	Stormwater Management		Aquifer Protection Area Fund		Total Proprietary Funds	Governmental Activities Internal Service Funds	
	2013	2012	2013	2012	2013	2013	
Operating Revenues							
Charges for services	\$ 1,869,081	\$ 1,834,740	\$ 150	\$ -	\$ 1,869,231	\$ -	
Intergovernmental revenues	233,165		484,344		717,509	177,744	
Miscellaneous revenues	4,143	-	-	2	4,143	-	
Total Operating Revenues	2,106,389	1,834,740	484,494	2	2,590,883	177,744	
Operating Expenses							
Personal services	447,895	375,653	-	-	447,895	14,126	
Professional services	38,872	146,734	-	-	38,872	263,922	
Materials and supplies	106,234	19,569	-	-	106,234	-	
Other services and expenses	1,037,607	519,506	-	-	1,037,607	-	
Depreciation and amortization	136,086	156,686	7,109	-	143,195	3,656	
Total Operating Expenses	1,766,694	1,218,148	7,109	-	1,773,803	281,704	
Operating Income (loss)	339,695	616,592	477,385	2	817,080	(103,960)	
Non-Operating Revenues (Expenses)							
Intergovernmental revenues	-	64,838	288,830	607,225	288,830	-	
Interest and investment income	1,992	2,601	-	-	1,992	1,183	
Miscellaneous revenues	-	57	-	-	-	-	
Other services & expenses	-	-	(299,319)	-	(299,319)	-	
Total Non-Operating Revenues (Expenses)	1,992	67,496	(10,489)	607,225	(8,497)	1,183	
Income (loss) before Capital Contributions and Transfers	341,687	684,088	466,896	607,227	808,583	(102,777)	
Contributions and Transfers							
Capital contributions	-	-	570,331	-	570,331	-	
Transfers In	-	-	-	-	-	319,000	
Transfers (out)	(13,400)	(128,014)	-	-	(13,400)	-	
Change in Net Position	328,287	556,074	1,037,227	607,227	1,365,514	216,223	
Net Position-Beginning of Year	4,439,348	3,883,274	1,024,553	417,326	5,463,901	1,136,389	
Net Position-End of Year	\$ 4,767,635	\$ 4,439,348	\$ 2,061,780	\$ 1,024,553	\$ 6,829,415	\$ 1,352,612	

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

# City of Spokane Valley, Washington

## Statement of Cash Flows - Proprietary Funds

For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Business-type Activities Enterprise Funds					
	Stormwater Management		Aquifer Protection Area Fund		Total Proprietary Funds 2013	Governmental type Activities Internal Service FDs 2013
	2013	2012	2013	2012		
<b>Cash Flows from Operating Activities</b>						
Cash received from customers	\$ 1,825,743	\$ 1,832,383	\$ 637,000	\$ (666,622)	\$2,462,743	\$ -
Cash paid to employees	(428,824)	(368,480)	(706)	955	(429,530)	(14,126)
Other cash payments to suppliers	(1,012,288)	(61,203)	(716,133)	770,332	(1,728,421)	-
Other cash receipts	283,940	(138,145)	<b>484,343</b>	2	768,283	-
Receipts from interfund activity	-	-	-	-	-	177,744
Cash payments to suppliers for goods and services	(56,917)	(765,397)	38,375	5,791	(18,542)	(258,599)
<b>Net cash (used for) provided by operating activities</b>	<b>611,654</b>	<b>499,158</b>	<b>442,879</b>	<b>110,458</b>	<b>1,054,533</b>	<b>(94,981)</b>
<b>Cash Flows from Noncapital Financing Activities</b>						
Non-Capital grant/project receipts	-	64,838	<b>288,830</b>	96,290	288,830	-
Customer supplies/project expense reimbursements	-	57	<b>(299,319)</b>	-	(299,319)	-
Operating subsidies & transfers in (out) other funds	(13,400)	(128,014)	-	-	(13,400)	319,000
<b>Net cash (used for) noncapital financing activities</b>	<b>(13,400)</b>	<b>(63,119)</b>	<b>(10,489)</b>	<b>96,290</b>	<b>(23,889)</b>	<b>319,000</b>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Acquisition, construction & (transfers) of capital assets	(842,284)	(398,087)	<b>(31,737)</b>	(1,133,211)	(874,021)	(48,749)
Purchases of capital assets	-	-	-	-	-	-
Intergovernmental revenues/materials & supplies (net)	-	-	-	510,934	-	-
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(842,284)</b>	<b>(398,087)</b>	<b>(31,737)</b>	<b>(622,277)</b>	<b>(874,021)</b>	<b>(48,749)</b>
<b>Cash Flows from Investing Activities</b>						
Interest received	2,063	2,540	-	-	2,063	1,225
<b>Net cash provided by investing activities</b>	<b>2,063</b>	<b>2,540</b>	<b>-</b>	<b>-</b>	<b>2,063</b>	<b>1,225</b>
Net increase (decrease) in Cash and Cash Equivalents	(241,967)	40,491	<b>400,654</b>	(415,529)	158,687	176,494
Cash and Cash Equivalents - January 1, 2013	2,622,642	2,582,151	1,797	417,326	2,624,439	1,137,816
<b>Cash and Cash Equivalents - December 31, 2013</b>	<b>\$ 2,380,675</b>	<b>\$ 2,622,642</b>	<b>\$ 402,451</b>	<b>\$ 1,797</b>	<b>\$2,783,126</b>	<b>\$ 1,314,310</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>						
Operating Income (loss)	\$ 339,695	\$ 616,592	\$ 477,385	\$ 2	\$ 817,080	\$ (103,960)
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>						
Depreciation	136,086	156,686	7,109	-	143,195	3,656
<i>(Increase) Decrease in Assets:</i>						
(Increase) Decrease: Receivables (net)	(43,338)	(2,357)	636,850	(666,622)	593,512	-
(Increase): Other Operating Receivables	46,632	(138,145)	-	-	46,632	-
(Increase) Decrease: Inventory	-	63	-	-	-	-
<i>Increase (Decrease) in Liabilities:</i>						
Increase (Decrease): Accounts payable to suppliers	88,189	(123,163)	<b>38,374</b>	5,791	126,563	5,323
Increase (Decrease): Payroll and benefits payable	(4,062)	5,344	(706)	955	(4,768)	-
Increase (Decrease): Other Accounts Payables	25,319	(15,863)	(716,133)	770,332	(690,814)	-
<b>Increase (Decrease): Compensated Absences</b>	<b>23,133</b>	-	-	-	23,133	-
Increase: Deferred revenues	-	-	-	-	-	-
Total adjustments	271,959	(117,435)	(34,506)	110,456	237,453	8,979
<b>Net Cash Provided by (Used for) by Operating Activities</b>	<b>\$ 611,654</b>	<b>\$ 499,158</b>	<b>\$ 442,879</b>	<b>\$ 110,458</b>	<b>\$1,054,534</b>	<b>\$ (94,981)</b>

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

## Notes to Financial Statements

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

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

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

#### **B. Reporting entity**

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

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

As required by GAAP the City’s financial statements present the City of Spokane Valley – the primary government. There are no component units (either blended or discretely presented) included in these statements.

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

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

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

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

## Notes to Financial Statements

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

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

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

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

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

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

The city reports the following *major governmental funds*:

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

*The Street Fund:* This Special revenue fund is responsible for the street operating and maintenance service levels of all Spokane Valley city streets and bridges. It utilizes the receipts received from the motor vehicle fuel tax (MVFT) distributed to the City in accordance with the State Revised Codes of Washington (RCW 82.36.020) and receipts from the City Telephone Tax implemented in 2009. Most of the service levels to the city streets during 2013 are the same or greater than provided for compared to 2012.

## Notes to Financial Statements

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*Civic Building Capital Projects Fund:* accounts for capital improvement projects funded by revenues that are allocated as reserve or specifically designated for future expansion and construction of Civic Buildings for the City of Spokane Valley. Revenues include transfers from the General Fund.

*Capital Reserve Fund:* accounts for the accumulation of resources for a number of future capital projects. Revenues include transfers from the General Fund.

The city reports the following *major proprietary funds*:

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

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

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

*Special revenue funds:* accounts for Arterial Street construction, Hotel/Motel tax revenues and expenditures, Winter Weather Reserve, and revenues and expenditures for the Paths and Trails Fund.

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

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

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

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

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

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



## Notes to Financial Statements

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### E. Budgetary information

#### 1. Budgetary basis of accounting

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

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

The City's budget procedures are mandated by the Revised Code of Washington 35A.33. The following are key procedural steps in the City's budget development process. Note that the process and dates are for the 2014 budget process and may be changed for future processes:

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

#### 3. Amending the budget

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

The City's budget was amended twice during fiscal year 2013. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes. Annual appropriations for all funds lapse at the end of the fiscal period even if they have related encumbrances. Unexpended resources must be re-appropriated and become part of the subsequent period's budget pursuant to Washington States regulations.

## Notes to Financial Statements

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### 4. Excess of expenditures over appropriations

For the year ending December 31, 2013, no material violations of finance related legal or contractual provisions occurred. The Civic Buildings Capital Projects Fund exceeded legal appropriations for the fiscal year. The Civic Buildings Capital Projects Fund exceeded its legal appropriation by \$9,942 or 100.0%. The overage resulted from receiving an unexpected invoice related to a 2012 capital project and was funded by interest income in excess of the amount expected and by beginning fund balance.

### 5. Deficit Net Position

The City did not have any funds with deficit fund net position as of December 31, 2013.

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

### 1. Cash and cash equivalents

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

### 2. Investments

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

Investments for the City of Spokane Valley are reported at fair value at December 31, 2013. The Washington State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with the Security Exchange Commission's (SEC) Rule 2a-7 of the Investment Company Act of 1940 and other appropriate state laws and regulations. The fair value of the LGIP portfolio is calculated by a master custodian or by an independent pricing service under contract with the State Treasurer's Office. The reported fair value of the City's pool position in the State of Washington's LGIP is the same as the fair value of the pool shares (refer to note 4).

### 3. Receivables

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

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

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

## Notes to Financial Statements

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Similarly, balances between the funds included in business-type activities (i.e., the proprietary funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column (**refer to note 9**).

Further, certain activity occurs during the year involving *transfers* of resources between funds. In the fund financial statements these amounts are reported at gross amounts of *transfers in/out*. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. *Transfers* between the funds included in governmental-type activities are eliminated so that only the net amount is included as transfers in the governmental-type activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column (**refer to note 9**).

### 5. Inventories and prepaid items

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

### 6. Capital assets

Capital assets include: property, plant, equipment, and infrastructure assets (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, including infrastructure assets as assets with an initial and individual cost of more than \$5,000, and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of proprietary/business-type activities is included as part of the capitalized value of the assets constructed and the amount of interest capitalized depends on the specific circumstances (**refer to note 6**). There was not any interest expense incurred during 2013 that was included as part of the cost of capital assets under construction.

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

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

### 7. Unearned revenues and deferred outflows/inflows of resources

The City of Spokane Valley currently has multiple sources that qualify for reporting as deferred outflows/inflows of resources for fiscal year 2013 under this standard. One source in the Governmental funds consists of traffic mitigation fees received in advance and the other, Unavailable Grant receipts in the Proprietary Fund types.

## Notes to Financial Statements

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### **8. Compensated absences**

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

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

These accounts consist primarily of accrued wages and employee benefits and deposits payable. Refer to note 13 – Receivable and Payable Balances.

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

Refer to note 11– Long-Term Obligations and Leases.

### **11. Unearned Revenues**

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

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

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

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

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

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

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

## Notes to Financial Statements

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

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

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

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

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

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

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

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

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

The governmental fund balance includes reconciliations between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.” The details of the **\$(7,901,683)** difference are as follows:

## Notes to Financial Statements

Bonds payable	\$ (7,435,000)
Premium on bond issuance	(116,818)
Compensated absences	<u>(349,865)</u>

Net adjustment to **reduce** fund balance - total governmental funds  
to arrive at net position - governmental activities \$ (7,901,683)

Another element of that reconciliation explains the “Internal service funds are used by management to charge the cost of certain activities, such as health insurance costs to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.” The details of the **\$1,352,612** difference are as follows.

Net position of the internal service fund	\$ 1,352,612
Less: Internal payables	<u>-</u>

Net adjustment to **increase** fund balance - total governmental funds  
to arrive at net position governmental activities \$ 1,352,612

Also, another element of the reconciliation explains that capital assets used in governmental activities are not financial resources and the balance reflects the initial investment in capital assets therefore, “governmental funds do not report capital assets.” The details of the **\$83,343,440** difference are as follows:

Land	\$ 7,044,498
Construction in Progress	<u>5,352,394</u>
Total non-depreciable capital assets	<u><u>12,396,892</u></u>

Depreciable capital assets	\$ 305,140,434
Less: Accumulated depreciation-depreciable assets	<u>(234,193,886)</u>
Total depreciable capital assets, net of accumulated depreciation	<u><u>70,946,548</u></u>

Net adjustment to **increase** fund balance - total governmental funds  
to arrive at net position - governmental activities \$ 83,343,440

Certain earned tax revenues were collected and other long-term assets will not be available until after the year end to pay for current expenditures; and therefore represent an acquisition of net position that applies to future period(s) and will not be recognized as an *inflow of resources (revenue)* until that time and accordingly, these items will be reported as *unearned revenues* in the governmental fund balance sheet. The details of the **\$3,459,379** reconciled difference presented as follows:

Unearned revenue-property tax	\$ 408,051
Unearned revenue-sales & use tax	2,074,021
Unearned revenue-deposits & liens	881,552
Unearned revenue-grant receipts	<u>95,755</u>
Net adjustment to <b>increase</b> fund balance - total governmental funds to arrive at net position governmental activities	<u><u>\$ 3,459,379</u></u>

## Notes to Financial Statements

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes this reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expenses in the current period.” The details of this **\$1,051,610** difference are as follows:

Capital outlay	\$ 6,825,687
Depreciation expense	(5,695,946)
Impaired/retired capital assets	<u>(78,131)</u>
Net adjustment to <b>increase</b> <i>net changes in fund balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><b>\$ 1,051,610</b></u>

This is the amount by which Bond payable repayments in the amount of **\$253,750** exceeded bond proceeds.

Another element of the reconciliation states that “some long-term revenues in the statement of activities that do not provide current financial resources to governmental funds are not reported as revenues in the funds.” The details of this **\$261,298** difference are as follows:

Unearned revenue-property taxes	\$ 44,244
Unearned revenue-sales & use taxes	14,367
Unearned revenue-excise taxes	2,783
Unearned revenue-other taxes	60,388
Unearned revenue-charges for services	45,424
Unearned revenue-capital grants & contributions	<u>94,092</u>
Net adjustment to <b>increase</b> <i>net changes in fund balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><b>\$ 261,298</b></u>

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds”. The details of this **\$(29,254)** difference are as follows:

# City of Spokane Valley

## Notes to Financial Statements

Compensated absences	\$ (38,503)
Bond premium expense	7,316
Bond unamortized premium accrual	1,250
Interest expense	<u>683</u>

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

**\$ (29,254)**

Another element of the reconciliation states the “internal service funds are used by management to charge the cost of certain activities, such as self-insurance and equipment rental and replacement, to individual funds.” The details of this **\$216,223** difference are as follows:

Revenues:

Interest and investment income, miscellaneous revenues	\$ 497,927
Total Revenues	<u>497,927</u>

(Less) expenses and net transfers:

(281,704)

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

**\$ 216,223**

### **NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

At December 31, 2013, there have been no material violations of finance-related legal or contractual provisions.

### **NOTE 4 – DEPOSITS AND INVESTMENTS:**

#### **A. Deposits and investments**

As of December 31, 2013, the City of Spokane Valley had the following investments:

<b>Investment Type</b> <i>(amounts are in thousands)</i>	<b>Fair Value</b>	<b>Weighted Average Maturity (YRS)</b>
Commercial paper	\$ 5,057	0.63
State Treasurer's investment pool (LGIP)	44,057	0.45
Total fair value of investments:	<u><b>\$ 49,114</b></u>	-
Portfolio weighted average maturity		<b>0.47</b>

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



## Notes to Financial Statements

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*Credit risk:* As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligation of Washington State municipalities the State Treasurer's Local Government Investment Pool (LGIP Revised Code of Washington RCW 43.250), and certificates of deposit (CDs) with Washington State banks and savings and loan institutions. Also, State law limits these investments to the highest ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City of Spokane Valley's policy to limit its investments in these investment types to the highest ratings issued by NRSROs. As of December 31, 2013, the City of Spokane Valley's investment in the State Treasurer's investment pool was rated AA+ by Standard & Poor's. The City of Spokane Valley's investments in commercial paper was rated A1 by Standard & Poor's.

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

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

The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington and provides an additional level of security for The City of Spokane Valley's deposits. As of December 31, 2013, the City of Spokane Valley's total bank balance of \$2,725,400 was insured and covered by the FDIC and the Washington State PDPC pool and therefore, was not exposed to any custodial credit risk-deposits. These banks deposits were in a State authorized public depository and were within the State limit of the depositories (bank's) net worth per RCW 39.58.010 and RCW 39.58.135.

*Custodial credit risk-investments:* Investments in the State's LGIP are shown on the entity-wide Statement of Net Position at fair market value and comparable to a Rule 2a-7 money market fund regulated by The Securities and Exchange Commission (SEC, 17CFR.270.2a-7). The City's investments can be categorized to give an indication of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent, but not in the City's name. The City had no Category 1, 2, or 3 type investments in their investment portfolio as of December 31, 2013.

### **NOTE 5 – PROPERTY TAXES:**

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

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

Property taxes levied for the current year are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. For 2013, the City's regular levy was \$10,919,932 based on the 2012 assessed value of \$6,921,825,295.

## Notes to Financial Statements

The tax rate for general City operations is limited by State law (RCW 84.52.043) to \$3.60 per \$1,000 of assessed valuation, deducting from there the levy of \$1.50 by the Spokane County Fire Districts #1 and #8, and \$.50 for Library Districts, which leaves the City with the authority to levy \$1.60 for its own purposes. This amount may be reduced for any of the following reasons:

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

### ***NOTE 6 – CAPITAL ASSETS AND DEPRECIATION:***

Donated capital assets received from Spokane County at the time of incorporation were recorded at cost and the accumulated depreciation at the time of transfer. These assets are shown as capital contributions on the statement of activities. The following schedule details capital assets donated and transferred to the City of Spokane Valley during the year ended December 31, 2003:

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

# City of Spokane Valley

## Notes to Financial Statements

Governmental-type Capital asset activity for the year ended December 31, 2013, is summarized as follows:

Governmental-type activities	Beginning			Ending Balance
	Balance 1/1/2013	Additions	Reductions	12/31/2013
Land (non depreciable)	\$ 6,955,690	\$ 88,808	\$ -	\$ 7,044,498
Construction in progress	3,828,222	2,414,246	(890,074)	5,352,394
<b>Total non-depreciable assets</b>	<b>10,783,912</b>	<b>2,503,054</b>	<b>(890,074)</b>	<b>12,396,892</b>
Buildings	12,876,766	-	-	12,876,766
Leasehold improvements	130,021	-	-	130,021
Improvements other than buildings	9,622,779	161,552	-	9,784,331
Infrastructure	274,691,255	5,055,195	(118,989)	279,627,461
Machinery and equipment	2,685,037	116,096	(30,528)	2,770,605
<b>Total depreciable assets</b>	<b>300,005,858</b>	<b>5,332,843</b>	<b>(149,517)</b>	<b>305,189,184</b>
<b>Total capital assets</b>	<b>\$ 310,789,770</b>	<b>\$ 7,835,897</b>	<b>\$ (1,039,591)</b>	<b>\$ 317,586,076</b>

<i>Less accumulated depreciation for:</i>	Beginning Balance			Ending Balance
	1/1/2013	Additions	Reductions	12/31/2013
Buildings	\$ 2,818,690	\$ 322,898	\$ -	\$ 3,141,588
Leasehold improvements	130,021	-	-	130,021
Improvements other than buildings	3,330,480	692,746	-	4,023,226
Infrastructure	220,013,603	4,503,358	-	224,516,961
Machinery and equipment	2,205,146	211,129	(30,528)	2,385,747
<b>Total accumulated depreciation</b>	<b>\$ 228,497,940</b>	<b>\$ 5,730,131</b>	<b>\$ (30,528)</b>	<b>\$ 234,197,543</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 82,291,830</b>	<b>\$ 2,105,766</b>	<b>\$ (1,009,063)</b>	<b>\$ 83,388,533</b>

# City of Spokane Valley

## Notes to Financial Statements

Business-type Capital asset activity for the year ended December 31, 2013, is summarized as follows:

<b>Business-type activities;</b>	<b>Balance 1/01/2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/2013</b>
Construction in progress	\$ 1,217,629	\$ 114,504	\$ (1,186,315)	\$ 145,818
<b>Total non-depreciable assets</b>	<b>1,217,629</b>	<b>114,504</b>	<b>(1,186,315)</b>	<b>145,818</b>
Buildings and structures	375,791	-	-	375,791
Infrastructure	1,464,409	2,516,162	-	3,980,571
Machinery and equipment	183,649	-	-	183,649
	-	-	-	-
<b>Total depreciable assets</b>	<b>2,023,849</b>	<b>2,516,162</b>	<b>-</b>	<b>4,540,011</b>
<b>Total capital assets</b>	<b>\$ 3,241,478</b>	<b>\$ 2,630,666</b>	<b>\$ (1,186,315)</b>	<b>\$ 4,685,829</b>
<b>(Less) accumulated depreciation for:</b>				
Buildings and structures	\$ 21,921	\$ 12,526	\$ -	\$ 34,447
Infrastructure	239,992	101,168	-	341,160
Machinery and equipment	104,339	29,501	-	133,840
	-	-	-	-
<b>Total accumulated depreciation</b>	<b>366,252</b>	<b>143,195</b>	<b>-</b>	<b>509,447</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 2,875,226</b>	<b>\$ 2,487,471</b>	<b>\$ (1,186,315)</b>	<b>\$ 4,176,382</b>

Depreciation expense was charged to current functions of the primary government for 2013 as follows:

Governmental Activities:	
General Government	\$ 126,133
Public Safety	53,227
Physical Environment	1,024,256
Transportation	3,538,690
Economic Environment	26,474
Culture and Recreation	930,823
<b>Total governmental activities current year depreciation expense</b>	<b>\$ 5,699,603</b>
Business-type activity:	
StormWater	\$ 136,086
Aquifer Protection Area	7,109
<b>Total business-type activities current year depreciation expense</b>	<b>\$ 143,195</b>

### Construction commitments

The City of Spokane Valley was involved in many construction projects as of December 31, 2013. The projects include various street construction projects with a total of \$6,940,372 of contracts in place. At year end the City's commitments with contractors are as follows:

## Notes to Financial Statements

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	<u>Spent-to-Date</u>	<u>Remaining Commitments</u>
Various street, bridge, and parks construction projects:	\$ 6,075,376	\$ 864,996

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

### **Impaired capital assets**

During the year ended December 31, 2013, public works construction project number 0148 – Greenacres Trail Design was found to be impaired due to construction stoppage. The stoppage occurred because of lack of funding. The value of the impairment was \$47,602, and it was disposed of from governmental construction in progress out of the utilities and environment function.

### ***NOTE 7 – PENSION PLANS:***

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Substantially all City of Spokane Valley's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 27.

### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

#### Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

## Notes to Financial Statements

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PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

## Notes to Financial Statements

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PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

## Notes to Financial Statements

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries 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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012, as reported by The Washington State Department of Retirement Systems (DRS):

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but, not yet receiving benefits	30,515
Active plan members vested	106,317
Active plan members non-vested	44,273
<b>Total</b>	<b>263,347</b>

### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
<b>Employer *</b>	<b>9.21%**</b>	<b>9.21%**</b>	<b>9.21%***</b>
<b>Employee</b>	<b>6.00%****</b>	<b>4.92%****</b>	<b>*****</b>

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plans 2 and 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by PERS 3 member.



## Notes to Financial Statements

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2013 Employer contributions	\$ -	\$ 299,980	\$ 162,679
2012 Employer contributions	1,803	251,140	128,105
2011 Employer contributions	10,247	194,906	104,982

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### **NOTE 8 – RISK MANAGEMENT:**

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

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

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

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

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

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

## Notes to Financial Statements

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

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

The City of Spokane Valley is self-insured on a reimbursement basis for unemployment compensation. The City incurred \$14,126 in claims for unemployment compensation in 2013 and did not have any settlements that exceeded insurance coverage in the last three prior years.

### **NOTE 9 – INTERFUND SERVICES ACTIVITY AND TRANSFERS:**

#### **Interfund services activity**

Sometimes during the course of operations, and as a part of the City's regular programmatic activity, one fund will sell goods, have work performed or services provided to another fund in return for equal or almost equal value. As a result of such exchanges, an *interfund services provided and used* applies to any residual balances outstanding at year end and the City reports this type of activity as *due from/to other funds*. *Due to other fund and due from other fund* balances at December 31, 2013, were:

<b>Due from; Due to table</b>	<b>Due from other funds</b>	<b>Due to other funds</b>
General fund	\$ -	\$ -
Street capital improvement fund	-	-
Nonmajor governmental funds	270,000	270,000
Total governmental funds	270,000	270,000
Stormwater mangement fund	-	-
Aquifer protection area fund	-	-
Total proprietary funds	-	-
<b>Total government - wide</b>	<b>\$ 270,000</b>	<b>\$ 270,000</b>

All remaining interfund balances resulted from the time lag between year end and beginning fiscal year dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) from actual fiscal year end transactions recorded in the accounting system, (3) to payments between funds are made, and (4) temporarily eliminate fiscal year end (negative credit balances) in the City's pooled cash positions.

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

## Notes to Financial Statements

Interfund transfer activity for 2013 is as follows:

	Transfers - in	Transfers - (out)
General fund	\$ 133,887	\$ 8,195,207
Street fund	27,376	321,838
Hotel/Motel fund	-	30,000
CenterPlace operating reserve	-	50,787
Civic facilities replacement fund	-	616,284
Debt service fund	185,902	-
Capital projects fund	-	832,485
Special capital projects fund	-	423,570
Street capital projects fund	828,984	-
Parks capital projects fund	50,000	-
Street capital improvement fund	1,198,284	77,721
Capital reserve fund	7,826,207	8,348
Stormwater management fund	-	13,400
Internal service funds	319,000	-
<b>Total government - wide</b>	<b>\$ 10,569,640</b>	<b>\$ 10,569,640</b>

### NOTE 10 – SHORT-TERM DEBT:

As of December 31, 2013, the City incurred no short-term debt.

### NOTE 11 – LONG -TERM OBLIGATIONS AND LEASES:

#### General Obligation Bonds

Liabilities for *long-term obligations* are recorded in the government-wide statement of net position.

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

In 2003, the City issued \$9,430,000 in councilmanic bonds to finance the construction of the CenterPlace Community Center and for various street construction projects. The City expects to receive intergovernmental payments from the Spokane Public Facilities District pursuant to an inter-local agreement dated July 2003, for up to \$7 million of bonds.

General obligation bonds currently outstanding as December 31, 2013, are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
2003 LTGO Bonds	Governmental Activities	2.00% - 5.00%	\$7,435,000

## Notes to Financial Statements

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

	<b>Governmental - Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2014	270,000	357,822	627,822
2015	285,000	347,023	632,023
2016	300,000	335,622	635,622
2017	315,000	323,623	638,623
2018	360,000	310,550	670,550
2019-2023	2,425,000	1,256,500	3,681,500
2024-2028	2,245,000	631,500	2,876,500
2029-2033	1,235,000	174,250	1,409,250
<b>Totals</b>	<b>\$ 7,435,000</b>	<b>\$ 3,736,890</b>	<b>\$ 11,171,890</b>

Long-term debt on the Statement of Net Position is presented net of any premium/discount incurred at the time of issuance. The 2003 LTGO Bonds were sold at a premium of \$189,974 and were reported at the net amount of \$9,619,974. The premium will be amortized over the life of the bonds and the outstanding liability balance as of December 31, 2013, is \$116,818.

### Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

<b>Governmental - type activities</b>	<b>Balance 1/1/2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/2013</b>	<b>Amounts Due within One Year</b>
Bonds and notes payable:					
General obligation bonds	\$ 7,690,000	\$ -	\$ 255,000	\$ 7,435,000	\$ 270,000
Premium on LTGO bonds	124,134		7,316	116,818	7,316
Other liabilities:					
Compensated absences	311,362	38,503	-	349,865	38,503
<b>Governmental activities long-term liabilities</b>	<b>\$ 8,125,496</b>	<b>\$ 38,503</b>	<b>\$ 262,316</b>	<b>\$ 7,901,683</b>	<b>\$ 315,819</b>

Other liabilities for *business-type activities* consist of compensated absences in the Stormwater Management Fund. The balance of these compensated absences was \$23,133 as of December 31, 2013.

### Legal Debt Margin

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

The 2012 assessed valuation of the City for the Levy year of 2013, for purposes of determining the legal debt margin is \$6,921,825,295. 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

## Notes to Financial Statements

limited to 1.5% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2.5% of total valuation. There is a 2.5% limitation each for utility purposes and open space and park facilities purposes. The remaining voted and non-voted GO debt capacities for General purposes of the City at December 31, 2013, are as follows:

	<u>Amount</u>
General Purposes Voted and Non-voted Debt - 2.5% (1)	\$ 165,260,767
Utility Voted Debt - 2.5%	173,045,632
Open Space and Park Facilities Voted Debt - 2.5%	173,045,632
<b>Total Remaining Debt Capacity</b>	<b><u>\$ 511,352,031</u></b>

(1) Includes: \$96,042,514 General purpose indebtedness without a vote.

### Leases

Operating Leases – The City of Spokane Valley leases buildings and other equipment under noncancelable operating lease agreements. Operating leases do not give rise to property rights or lease debt obligations, and therefore the results of these agreements are not reflected in the General Long-term Obligations of government activities. Total costs for such leases were \$469,585 for the fiscal year ending December 31, 2013. The future minimum lease payments for these leases are presented as follows (table follows):

<u>Year ending Dec. 31</u>	<u>Amount</u>
2014	\$ 453,148
2015	451,371
2016	454,665
2017	<u>115,304</u>
Total minimum future lease payments	<b><u>\$ 1,474,488</u></b>

Under the City's building lease for city hall, there is an option for the City to terminate the lease at the end of the 36<sup>th</sup> month, or March 2016. To exercise this option, the City would have to pay a fee of \$34,680 and provide six months prior written notice. If the City exercises the early termination option, future minimum lease payments in 2016 and 2017 would be reduced by \$424,483.

### NOTE 12 – CONTINGENCIES AND LITIGATION:

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

The City participates in a number of federal-and-state assisted programs. These grants are subject to audit by the granting agencies and or their representatives. Such audits could result in requests for reimbursement to grantor agencies for

## Notes to Financial Statements

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expenditures disallowed under the terms of the grants. City management does not believe that such disallowances, if any, will be material.

During fiscal year 2003, the City of Spokane Valley acquired 31 acres of land from Spokane County to be used for a city park. After acquisition, it was determined that a concrete company on the adjacent parcel had, at some point in the past, contaminated the property the City was acquiring. The Department of Ecology (DOE) ordered an analysis of the environmental impact and potential options. The concrete company is highly likely, under federal environmental law, to be found solely responsible for cleaning up all of the contaminants. Although no formal agreement has been signed by the parties to accomplish this outcome, it is the likely result. The City does not currently anticipate incurring any significant expense through the remainder of this process, which is anticipated to be concluded by the end of 2015.

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

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

the \$744,047 received from the Library as revenue, transfer title for this land to the Library, and remove \$744,047 of land from its capital assets.

The interlocal agreement also provided that if the Library had not within five years following the acquisition of the land (in October 2017), secured voter approval of a construction bond for the library building and ancillary improvements, that the land would be reconveyed back to the City at the same price paid by the Library (\$744,047). Refer to note 15 for additional information on this topic.

# City of Spokane Valley

## Notes to Financial Statements

### NOTE 13 – RECEIVABLE AND PAYABLE BALANCES:

**A) Receivables:** Receivables at December 31, 2013, were as follows:

Governmental Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & other receivables	Total receivables
General fund	\$ 449,943	\$ 4,251,864	\$ 7,663	\$ -	\$ 60,343	4,769,813
Street fund	22,973	516,089	-	-	188	539,250
Civic buildings capital projects fund	-	-	-	-	110	110
Capital reserve fund	-	-	-	-	-	-
Other Governmental funds	-	137,751	704,295	270,000	553	1,112,599

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

**Total Governmental type activities**

-	-	-	-	74	74
<b>\$ 472,916</b>	<b>\$ 4,905,704</b>	<b>\$ 711,958</b>	<b>\$ 270,000</b>	<b>\$ 61,268</b>	<b>\$ 6,421,846</b>

Business Type Activities	Accounts receivable (net)	Taxes receivable	Grants receivable	Due from other funds	Prepays & other receivables	Total receivables
Stormwater management fund	\$ 51,492	\$ 68,381	\$ 162,959	\$ -	\$ 124	\$ 282,956
Aquifer protection area fund	-	-	29,772	-	-	29,772

**Total Business type activities**

<b>\$ 51,492</b>	<b>\$ 68,381</b>	<b>\$ 192,731</b>	<b>\$ -</b>	<b>\$ 124</b>	<b>\$ 312,728</b>
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**B) Payables:** Payables at December 31, 2013, were as follows:

Governmental Type Activities	Accounts payables	Accrued wages & benefits payable	Due to other funds	Deposits payable	Unearned revenues	Deferred inflows	Total
General fund	\$ 566,388	\$ 390,791	\$ -	\$ 1,437,064	\$ 2,437,383	\$ -	\$ 4,831,626
Street fund	353,312	38,686	-	59,813	152,973	-	604,784
Civic buildings capital project funds	-	-	-	3,944	744,047	-	747,991
Capital reserve fund	11,899	-	-	-	-	-	11,899
Other Governmental funds	650,821	31,599	270,000	183,052	113,454	11,522	1,260,448

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

**Total Governmental type activities**

6,865	(1)	-	-	(3,418,038)	(11,522)	(3,422,696)
<b>\$ 1,589,285</b>	<b>\$ 461,075</b>	<b>\$ 270,000</b>	<b>\$ 1,683,873</b>	<b>\$ 29,819</b>	<b>\$ -</b>	<b>\$ 4,034,052</b>

Business Type Activities	Accounts payables	Salaries & benefits payable	Deposits payable	Other accrued liabilities	Unearned revenues	Deferred inflows	Total
Stormwater management fund	\$ 124,058	\$ 23,270	\$ 33,600	\$ 53,244	\$ 108,765	\$ 1,271	\$ 344,208
Aquifer protection area fund	44,166	248	-	24,427	-	29,772	98,613
<b>Total Business type activities</b>	<b>\$ 168,224</b>	<b>\$ 23,518</b>	<b>\$ 33,600</b>	<b>\$ 77,671</b>	<b>\$ 108,765</b>	<b>\$ 31,043</b>	<b>\$ 442,821</b>

## Notes to Financial Statements

### NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB):

#### Association of Washington Cities Employee Benefit Trust (“Trust”)

**Trust Description:** In addition to the Public Employee’s Pension Plans described in **Note 7**, the City of Spokane Valley is a participating Employer in the Association of Washington Cities Employee Benefit Trust (AWCEBT), a cost-sharing multiple employer welfare benefit plan administered by the Association of Washington Cities (AWC). The Trust provided medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to: The Association of Washington Cities Employee Benefit Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling your request at 1-800-562-8981.

**Funding Policy:** The plan is administered by a trust or equivalent arrangement in which employer contributions to the trust are irrevocable; these plan assets are for the sole purpose of providing OPEB to eligible retirees and their beneficiaries in accordance with the guidelines of the plan, and plan assets are legally protected from creditors of the employers or plan administrator.

In 2013, there were an estimated 240 employers enrolled in the AWC Employee Benefits Trust Plan. All the risks, rewards, and costs, including benefit costs, are shared and are not individually attributed to the employers. A single actuarial valuation conducted biennially, covers all plan participants, and the same contribution rate(s) apply to all enrolled employers. January 1, 2008, was the first year of the AWC Employee Benefits Trusts GASB OPEB implementation and corresponded with the first actuarial valuation of OPEB.

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

<b>AWC HealthFirst 1000</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 830.01
Non-Medicare enrolled retiree & spouse coverage	\$ 837.26
Medicare enrolled retiree coverage	\$ 443.30
Medicare enrolled retiree & spouse coverage	\$ 456.13
<b>AWC HealthFirst 2500</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 724.72
Non-Medicare enrolled retiree & spouse coverage	\$ 729.99
Medicare enrolled retiree coverage	\$ 388.08
Medicare enrolled retiree & spouse coverage	\$ 398.04
<b>Group Health Retiree</b>	<b>Monthly Amounts</b>
Non-Medicare enrolled retiree coverage	\$ 1,049.73
Non-Medicare enrolled spouse coverage	\$ 1,019.13
Medicare enrolled retiree coverage	\$ 399.46
Medicare enrolled spouse coverage	\$ 399.46



## Notes to Financial Statements

Participating employers are not contractually required to contribute to the Trust. The retirees who elect coverage through the Trust pay 100 percent of the premium. As such, the City of Spokane Valley did not have any contributions to the Trust for the year ended December 31, 2013.

**Funding Status and Funding Progress:** The funded status of the AWC Employee Benefits Trust Plan as of January 1, 2013, which was the date of the last actuarial valuation, was as follows (*dollars in thousands*):

Actuarial accrued liability (AAL)	\$	132,860
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	132,860
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)		N/A <sup>1</sup>
UAAL as a percentage of covered payroll		N/A <sup>1</sup>

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

The schedule of funding progress is also presented as *required supplementary information* (RSI) following these Notes to the Financial Statements, and the schedule presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The AWC Employees Benefits Trust had substantial assets recorded as of December 31, 2013. *Because those assets have not been placed into an irrevocable trust for the sole purpose of providing the above OPEB benefits, the AWC understands that they cannot be reflected as "actuarial assets" in the precedent table under GASB 43 in determining the remaining values for this Trust.*

The AWC Employee Benefits Trust's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 will be determined with the next conducted biennial actuarial analyses scheduled for January 1, 2014, the reported years of 2008 thru 2010, and 2012 to 2013 were as follows (*dollars in thousands*):

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2008	\$ 29,579	5.88%	\$ 27,839
12/31/2009	29,872	7.86%	55,364
12/31/2010	27,892	4.42%	82,022
12/31/2012	12,885	7.77%	130,474
12/31/2013	11,858	9.20%	141,241

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

## Notes to Financial Statements

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### ***NOTE 15 – SUBSEQUENT EVENTS:***

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

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

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

In January 2014 the City declared this 2.82 acres surplus to its needs, transferred title for this land to the Spokane County Library District, recognized \$839,285 as revenue and removed the land from capital assets. Refer to note 12 for further information.

- B. At December 31, 2013 the City had \$7,435,000 of limited tax general obligation bonds outstanding. In August 2014 the City will refund those bonds through the issuance of 2014 limited tax general obligation bonds in order to take advantage of lower interest rates thus reducing future annual payments.

# City of Spokane Valley, Washington

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

*Budget to Actual*

### **General Fund, Major Fund**

*For the Year Ended December 31, 2013*

	Budgeted Amounts			Variance with
	Approved	Final		Final Budget
	Original Budget	Amended Budget	Actual	Over (Under)
<b>Revenues</b>				
Taxes	\$ 28,686,000	\$ 28,836,000	\$ 30,083,368	\$ 1,247,368
Licenses and permits	1,999,000	1,999,000	2,427,635	428,635
Intergovernmental revenues	1,692,800	1,692,800	1,951,671	258,871
Charges for services	714,900	714,900	987,788	272,888
Fines and forfeitures	626,200	626,200	543,662	(82,538)
Investment interest	97,500	97,000	68,177	(28,823)
Miscellaneous	1,232,700	1,232,700	1,019,654	(213,046)
<i>Total Revenues</i>	<u>35,049,100</u>	<u>35,198,600</u>	<u>37,081,955</u>	<u>1,883,355</u>
<b>Expenditures</b>				
Current:				
General government	4,700,446	4,728,264	4,231,733	(496,531)
Public safety	22,277,200	22,277,200	22,429,738	152,538
Utilities and physical environment	2,034,025	2,046,775	1,667,454	(379,321)
Transportation	-	-	-	-
Economic environment	237,000	362,000	356,093	(5,907)
Community development	1,977,763	2,048,013	2,030,754	(17,259)
Culture and recreation	2,655,343	2,701,477	2,599,253	(102,224)
Debt service:				
Interest expense	-	-	301	301
Capital Outlay:				
Capital expenditures	890,757	911,907	61,369	(850,538)
Construction in progress	-	-	855,857	855,857
<i>Total Expenditures</i>	<u>34,772,534</u>	<u>35,075,636</u>	<u>34,232,552</u>	<u>(843,084)</u>
<i>Excess (Deficiency) of Revenues</i>	<u>276,566</u>	<u>122,964</u>	<u>2,849,403</u>	<u>2,726,439</u>
<i>Over (Under) Expenditures</i>				
<b>Other Financing Sources (Uses)</b>				
Transfers in	83,100	133,887	133,887	-
Transfers (out)	(8,195,207)	(8,245,994)	(8,245,994)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(8,112,107)</u>	<u>(8,112,107)</u>	<u>(8,112,107)</u>	<u>-</u>
<i>Net Change in Fund Balances (deficit)</i>	<u>(7,835,541)</u>	<u>(7,989,143)</u>	<u>(5,262,704)</u>	<u>2,726,439</u>
<i>Fund Balances Beginning of Year:</i>	<u>34,593,550</u>	<u>34,593,550</u>	<u>34,593,550</u>	<u>-</u>
<i>Fund Balances End of Year:</i>	<u>\$ 26,758,009</u>	<u>\$ 26,604,407</u>	<u>\$ 29,330,846</u>	<u>\$ 2,726,439</u>

<sup>1</sup> While applying the GASB-54 reporting standard, total fund balance end of the year decreased by \$5,262,704 and the net change in fund balances decreased by \$43,816 due to investment interest of \$6,971 and transfers-out of \$50,787, rounding -1, and \$5,218,887 begin fund balances from these two combined Non-major Special Revenue Funds; as reported in the General Fund on the Statement of Rev, Expend., and Changes in Fund Balances.

# City of Spokane Valley, Washington

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

*Budget to Actual*

### *Street Fund, Major Fund*

*For the Year Ended December 31, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Approved Original Budget	Final Amended Budget		
<b>Revenues</b>				
Taxes	\$ 2,900,000	\$ 2,900,000	\$ 2,562,722	\$ (337,278)
Intergovernmental revenues	1,861,100	2,034,100	2,040,584	6,484
Charges for services	-	-	7,774	7,774
Investment interest	5,000	5,000	2,920	(2,080)
Miscellaneous	-	-	6,928	6,928
<i>Total Revenues</i>	<u>4,766,100</u>	<u>4,939,100</u>	<u>4,620,928</u>	<u>(318,172)</u>
<b>Expenditures</b>				
Current:				
Utilities and physical environment	469,000	469,000	115,918	(353,082)
Transportation	4,113,299	4,113,299	4,170,268	56,969
Debt Service:				
Principal retirement	-	-	-	-
Capital Outlay:				
Capital expenditures	-	200,000	5,978	(194,022)
Construction in progress	-	-	199,505	199,505
<i>Total Expenditures</i>	<u>4,582,299</u>	<u>4,782,299</u>	<u>4,491,669</u>	<u>(290,630)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>183,801</u>	<u>156,801</u>	<u>129,259</u>	<u>27,542</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	27,000	27,375	375
Transfers (out)	(321,700)	(321,700)	(321,838)	138
<i>Total Other Financing Sources (Uses)</i>	<u>(321,700)</u>	<u>(294,700)</u>	<u>(294,463)</u>	<u>(237)</u>
<i>Net Change in Fund Balances (deficit)</i>	<u>(137,899)</u>	<u>(137,899)</u>	<u>(165,204)</u>	<u>(27,305)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,228,437</u>	<u>2,228,437</u>	<u>2,228,437</u>	<u>-</u>
<b><i>Fund Balances End of Year</i></b>	<b><u>\$ 2,090,538</u></b>	<b><u>\$ 2,090,538</u></b>	<b><u>\$ 2,063,233</u></b>	<b><u>\$ (27,305)</u></b>

# City of Spokane Valley, Washington

**OTHER POST EMPLOYMENT BENEFITS (OPEB)**  
**Schedule of Funding Progress (six year trend) <sup>1</sup>**  
**GASB Statements No's 43 & 45**  
**Association of Washington Cities Employee Benefits Trust (AWCEBT)**  
*(dollars in thousands)*

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1/1/2008	\$ -	\$ 281,454	\$ 281,454	0%	N/A	N/A
1/1/2010	\$ -	262,602	262,602	0%	N/A	N/A
1/1/2012	\$ - <sup>3</sup>	120,317	120,317	0%	N/A	N/A
1/1/2013	\$ - <sup>3</sup>	132,860	132,860	0%	N/A	N/A

- 1) January 1, 2008 was the first year of OPEB implementation and corresponded with the first actuarial valuation of OPEB. Actuarial analyses were conducted biennially until the valuation as of 1/1/2012. Beginning as of 1/1/2013, funding progress will be reported annually.
- 2) Covered payroll information was not provided to the AWC Trust.
- 3) Association of Washington Cities Employee Benefits Trust (AWCEBT) had substantial assets as of December 31, 2013. Because those assets have not been placed into an irrevocable trust for the sole purpose of providing OPEB benefits to retirees, it is AWC's understanding that they cannot be reflected as "actuarial assets" under GASB 43 in determining the values for this Trust.

## OPEB Actuarial Assumptions

Valuation Date: January 1, 2013

Demographic Assumptions: Based on the Office of the State Actuary 2001-2006 Experience Study. Assumed that 15% of future retirees will elect coverage.

### **Economic Assumptions**

Health Experience Trend Rate: See expected rates for the next five years in table below.

Discount rate: 3.75%

Valuation Method: Projected Unit Credit Method with an open 30-year amortization of the unfunded AAL.

Health Experience Trend Rates		
Year	Pre-Medicare	Post-Medicare
2014	9.39%	8.10%
2015	8.93%	7.70%
2016	8.46%	7.30%
2017	7.96%	6.90%
2018	7.46%	6.50%

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2013**

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Office Of Community Planning And Development, Department Of Housing And Urban Development/Spokane County Housing and Community Development Department	Community Development Block Grants/Entitlement Grants	14.218	12-14	85,297		85,297	1, 2
Office Of Community Planning And Development, Department Of Housing And Urban Development/Spokane County Housing and Community Development Department	Community Development Block Grants/Entitlement Grants	14.218	CDBG13-13	10,175		10,175	1, 2
<b>Total CFDA 14.218</b>				<b>95,472</b>	<b>0</b>	<b>95,472</b>	
Bureau Of Justice Assistance, Department Of Justice/	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0626		3,272	3,272	1, 2
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2299		19,376	19,376	1, 2

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

Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX- 0525		23,978	23,978	1, 2
<b>Total CFDA 16.738</b>							
Department Of Justice/City of Spokane	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	2009-SB B9- 0693	243	243		1, 2, 3
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	CM-4041(014)	29,120	29,120		1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	CM-0027(012)	863,922	863,922		1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-4132 (001)	4,885	4,885		1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-4039 (003)	63,830	63,830		1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPE-EN10 (016)	429	429		1, 2

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

Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	CM-9932(040)	108,997		108,997	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	BRM-4103(007)	655,455		655,455	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	CM-1223(002)	117,657		117,657	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	CM-4103(008)	172,129		172,129	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-9932 (042)	147,747		147,747	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	HSIP-000S(325)	53,463		53,463	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	HSIP-000S(327)	107,957		107,957	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	HSIP-000S(371)	79,938		79,938	1, 2

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



Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-9932 (045)	31,843		31,843	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	HSIP-0027(013)	28,093		28,093	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	HSIP-000S(326)	1,722		1,722	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-9932 (049)	31,431		31,431	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	STPUL-3840 (010)	4,513		4,513	1, 2
Federal Highway Administration (fhwa), Department Of Transportation/WA Dept of Transportation	Highway Planning and Construction	20.205	BHM-4103(009)	175,955		175,955	1, 2
<b>Total CFDA 20.205</b>				<b>2,679,086</b>	<b>0</b>	<b>2,679,086</b>	
Federal Transit Administration (fta), Department Of Transportation/Spokane Transit Authority	New Freedom Program	20.521	WA-57-X014	6,091		6,091	1, 2

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

National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	N/A	4,771		4,771	1, 2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	2,161		2,161	1, 2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	5,000		5,000	1, 2
<b>Total CFDA 20.601</b>				<b>7,161</b>	<b>0</b>	<b>7,161</b>	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	N/A	1,611		1,611	1, 2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	National Priority Safety Programs	20.616	N/A	3,650		3,650	1, 2
<b>Total Federal Awards Expended:</b>				<b>2,798,085</b>	<b>46,626</b>	<b>2,844,711</b>	

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

CITY OF SPOKANE VALLEY, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2013**

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this program were funded by ARRA.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>