



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Cheney

Spokane County

For the period January 1, 2016 through December 31, 2016

Published June 22, 2017

Report No. 1019325





Office of the Washington State Auditor
Pat McCarthy

June 22, 2017

Mayor and City Council
City of Cheney
Cheney, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Cheney'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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Cheney
Spokane County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Cheney
Spokane County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Cheney
Cheney, 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 Cheney, Spokane County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 2, 2017.

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.



Pat McCarthy

State Auditor

Olympia, WA

June 2, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Cheney
Spokane County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Cheney
Cheney, Washington

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

We have audited the compliance of the City of Cheney, Spokane County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy
State Auditor
Olympia, WA

June 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Cheney Spokane County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Cheney
Cheney, 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 Cheney, Spokane County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cheney, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 24, information on postemployment benefits other than pensions on page 66 and pension plan information on pages 67 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

June 2, 2017

FINANCIAL SECTION

**City of Cheney
Spokane County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental
Activities – 2016

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2016

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
– General Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to the Basic Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits – LEOFF 1 Retiree Medical Benefits – Schedule of
Funding Progress – 2016

Schedule of Employer Contributions – 2016

Schedule of Proportionate Share of the Net Pension Liability – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

As management of the City of Cheney, we offer the readers of the City of Cheney's financial statements this narrative overview and analysis of the financial activities of the City of Cheney for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cheney exceeded its liabilities at the close of the most recent fiscal year by \$36,240,451. Of this amount, \$4,764,092 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased in 2016 by \$1,950,484 or 6%. The increase in net position is primary due to:
 - increased sales tax
 - assessment of a property tax levy lift
 - ongoing expense control
 - continued building activity
 - small utility rate adjustments
- At the close of the current fiscal year, the City of Cheney's governmental funds balance sheet reported combined ending fund balances of \$3,354,118, an increase of \$1,232,107 or 58% in comparison with the prior year. \$1,455,734 of this amount is available for spending at the City's discretion. The incredible increase over 2015 is due to the above mentioned increases in taxes, continued building growth and expense control.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Cheney's basic financial statements. The City of Cheney's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the City of Cheney's assets and liabilities, 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 of Cheney is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the 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 in this statement for some items that will result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Both the government-wide financial statements distinguish functions of the City of Cheney that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities in the City of Cheney include general government, finance, police, fire, streets, planning and community development, municipal court, and culture and recreation. The business-type activities of the City of Cheney include electric, water, solid waste and sewer.

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. The City of Cheney, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Cheney can be divided into three categories: Governmental, Proprietary, and Fiduciary.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in 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 evaluating a government's near term financial 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 government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term funding decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is the only governmental major fund reported in 2016. Data from the other 14 governmental funds are considered to be non-major and are combined into a single, aggregated presentation.

The City of Cheney adopts an annual appropriated budget for all governmental and proprietary funds. A budgetary comparison statement has been provided for the City of Cheney's major governmental fund, the general fund, to demonstrate compliance with this budget.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Proprietary Funds. The City of Cheney maintains two types of proprietary funds. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. The City of Cheney uses enterprise funds to account for its electric, water, solid waste, and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Cheney's various functions. The City of Cheney uses internal service funds to account for equipment rental, mechanical shop and unemployment. Because these funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for electric, water, solid waste, and sewer, all of which are considered to be major funds of the City of Cheney. Conversely, the internal service funds are combined into a single, aggregate presentation on the proprietary fund financial statements.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governmental financial position. In the case of the City of Cheney, assets exceeded liabilities by \$36,240,451 at the close of 2016.

By far the largest portion of the City's net position (83%) reflects the investment in capital assets (e.g. land, buildings, equipment, improvements, and infrastructure), less any related outstanding debt used to acquire those assets. The City of Cheney uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cheney's investment in 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 table below illustrates a comparative view of Net Position for both the governmental and business-type activities for the fiscal years ending 2016 and 2015.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

City of Cheney, Washington – Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$4,540,774	\$3,285,962	\$9,062,964	\$8,120,888	\$13,603,738	\$11,406,850
Capital Assets	16,084,006	16,010,378	21,746,009	22,788,337	37,830,015	38,798,715
<i>Total Assets</i>	20,624,780	19,296,340	30,808,973	30,909,225	51,433,753	50,205,565
Deferred Outflows of Resources	638,065	347,691	374,736	163,619	1,012,801	511,310
Long-Term Liabilities Outstanding	4,373,335	3,738,746	9,119,012	9,382,083	13,492,347	13,120,829
Other Liabilities	535,494	281,127	2,064,827	2,237,059	2,466,928	2,518,186
<i>Total Liabilities</i>	4,908,829	4,019,873	11,183,839	11,619,142	16,092,668	15,639,015
Deferred Inflows of Resources	76,459	540,482	36,976	247,380	113,435	787,862
Net Position:						
Net Investment in Capital Assets	16,084,006	16,010,378	13,933,368	14,281,069	30,017,374	30,291,447
Restricted	842,374	511,619	616,611	593,513	1,458,985	1,105,132
Unrestricted	-648,823	-1,438,321	5,412,915	4,331,740	4,764,092	2,893,419
<i>Total Net Position</i>	\$16,277,557	\$15,083,676	\$19,962,894	\$19,206,322	\$36,240,451	\$34,289,998

An additional portion of the net position of the City of Cheney (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$4,764,092 may be used to meet the government's ongoing obligation to the citizens and creditors.

Governmental Activities

Governmental activities increased the net position of the City of Cheney by \$1,179,458. The increase in net position is due primarily to increased sales and property taxes and large transportation grants for street projects. Total governmental revenues increased in 2016 by \$2,281,555 while expenditures also increased by \$471,908.

Key elements of this change in net position are displayed in the table on the following table:

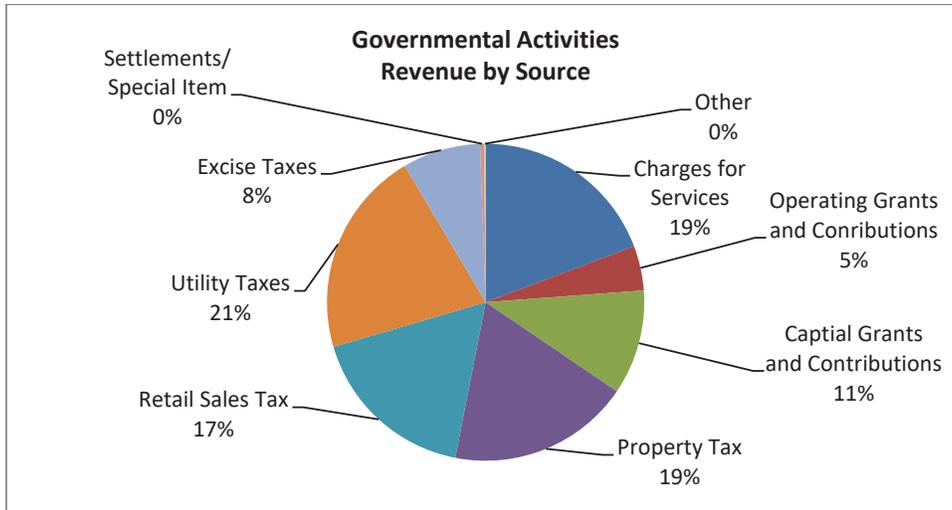
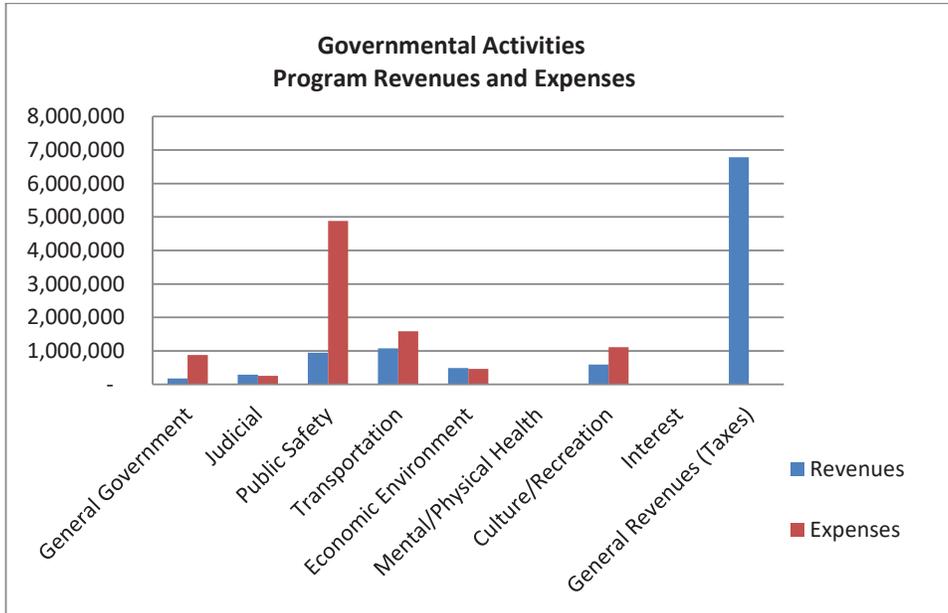
City of Cheney, Washington – Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<i>Revenues:</i>						
Program Revenues						
Charges for Services	\$1,993,049	\$1,768,275	\$14,347,620	\$12,890,362	\$16,340,669	\$14,658,637
Operating Grants/Contributions	472,159	428,955	432,562	366,193	904,721	795,148
Capital Grants/Contributions	1,106,281	76,674	558,252	480,312	1,664,533	556,986
General Revenues						
Property Tax	1,922,484	1,484,819	-	-	1,922,484	1,484,819
Retail Sales/Use Tax	1,800,373	1,600,634	-	-	1,800,373	1,600,634
Utility Tax	2,177,130	2,012,977	-	-	2,177,130	2,012,977
Other	881,514	699,101	-	-	881,514	699,101
<i>Total Revenue</i>	10,352,990	8,071,435	15,338,434	13,736,867	25,691,424	21,808,302

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

<i>Expenses:</i>						
General Government	877,641	882,785	-	-	877,641	882,785
Judicial	257,485	225,409	-	-	257,485	225,409
Public Safety	4,878,921	4,475,216	-	-	4,878,921	4,475,216
Transportation	1,589,496	1,648,684	-	-	1,589,496	1,648,684
Economic Environment	459,201	410,203	-	-	459,201	410,203
Mental/Physical Health	3,038	2,716	-	-	3,038	2,716
Culture and Recreation	1,107,105	1,055,201	-	-	1,107,105	1,055,201
Interest	645	1,410	-	-	645	1,410
Electric	-	-	9,187,379	8,484,818	9,187,379	8,484,818
Water	-	-	1,349,548	1,634,998	1,349,548	1,634,998
Solid Waste	-	-	1,366,543	1,321,443	1,366,543	1,321,443
Sewer	-	-	2,663,939	2,439,743	2,663,939	2,439,743
<i>Total Expenses</i>	9,173,532	8,701,624	14,567,409	13,881,002	23,740,941	22,582,626
Adjustment to Net Position	14,423	5,419	-14,453	-	-30	5,419
Adjustment to Capital Assets	-	-	-	20,491	-	20,491
Change in Accounting Principle–GASB 68	-	-2,100,680	-	-988,556	-	-3,089,236
Change in Net Position	1,179,458	-630,189	771,026	-144,135	1,950,484	-774,324
Net Position – January 1	15,083,676	17,809,126	19,206,321	20,318,521	34,289,997	38,127,647
Net Position – December 31	\$16,277,557	\$15,083,676	\$19,962,894	\$19,206,321	\$36,240,451	\$34,289,997

- The total revenue 2016 increased primarily due to growth from building, tax revenues, small rate adjustments, and federal and state street grants.
- Real Estate Excise Tax (REET) recorded the 3rd straight revenue increase. REET is generated through housing sales demonstrates the housing market recovery and new construction in 2016.
- Utility Taxes were slightly increased in 2016. The combination of a hot summer, snowy December, and small rate adjustments increased the utility tax by 10% over 2015. The increase in revenue is offset by the increase in building review, permits, and inspection of 10%.

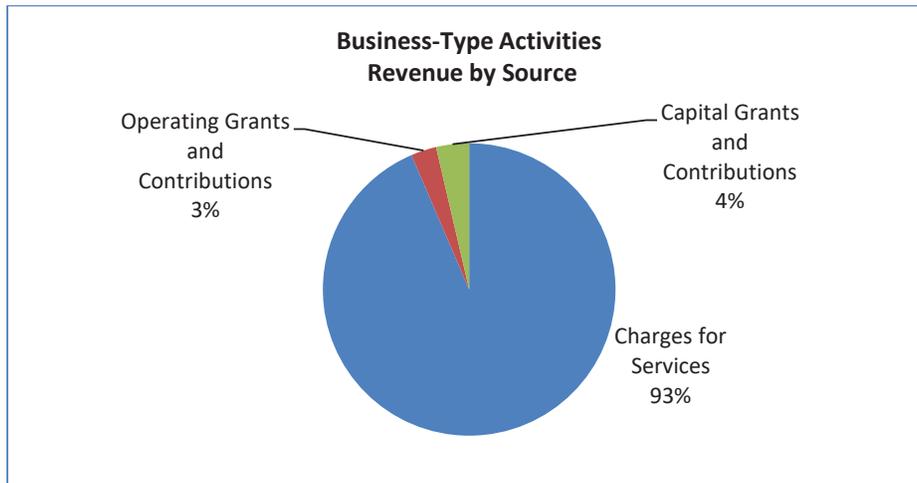
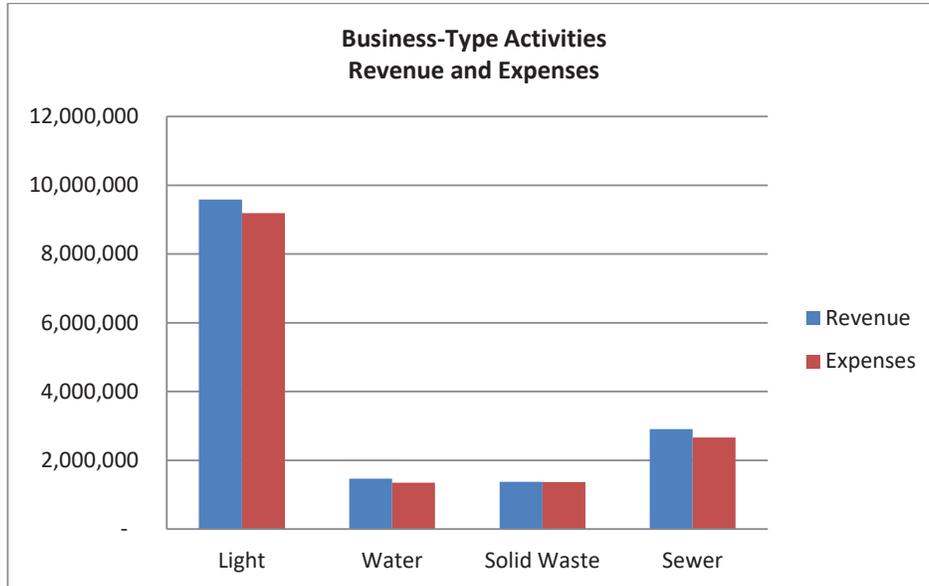
CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2016



Business-Type Activities

Business-type activities net position increased in 2016 by \$771,026. Small utility adjustments, strong growth through development, and strong utility sales were all instrumental in the position change in net position.

CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2016



FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City of Cheney's governmental funds is to provide information on near-term inflows, outflows, and balances of non-spendable, restricted, committed, assigned and unassigned resources.

CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2016

Such information is useful in assessing the City of Cheney's financial requirements. An unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the close of 2016, the City of Cheney's governmental funds balance sheet reported combined ending fund balances (all types) of \$3,354,118, an increase of \$1,232,107 in comparison with the prior year. The City continues to carefully study revenues and expenses in all funds. Additionally, in 2015 the voters have approved a general property tax levy lift to begin in 2016. The increase in property tax revenue directly benefited and funded public safety programs and equipment needs in 2016 and will continue to do in the near future. Other governmental programs will be analyzed and prioritized for possible inclusion in the use of levy lift funds after public safety needs have been met.

The general fund is the chief operating fund of the City of Cheney. At the close of 2016, \$1,455,734 is unassigned and available for spending at the City's discretion. As a measure of the general fund's liquidity, it is useful to compare the total of unassigned, assigned and committed fund balance to total fund expenditures. In 2016, that fund balance ratio is 27% compared to 18% for the prior fiscal year. The difference in the ratio is resulting from the increased unassigned fund balance. The increased revenues in taxes, building permits, and the unassigned levy lift contributed to the increase in the fund balance ratio.

Proprietary Funds

The City of Cheney's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. The net position at the close of 2016 for all four utilities is as follows:

City of Cheney, Washington – Recap of Proprietary Funds Net Position		
Fund	Unrestricted Net Position	Total Net Position
Light	\$2,482,385	\$8,776,585
Water	34,003	4,011,691
Solid Waste	753,819	1,547,777
Sewer	2,142,708	5,626,841
<i>Total</i>	\$5,412,915	\$19,962,894

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's general fund shows a significant budget variance in both the Charges for Services Revenues and the general government's expenditures. Both variances are a result of the charge back of governmental activities to the proprietary funds through the cost allocation process.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Cheney's investment in capital assets for its government and business-type activities as of December 31, 2016 amounts to \$37,830,015 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, infrastructure, machinery and equipment, and park facilities. The total decrease in the City of Cheney's investment in capital assets for the current fiscal year was -2% (.45% increase in governmental funds and -5% decrease in business-type activities).

Major capital assets events (over \$50,000) during 2016 included the following:

- General - Capital Lease of 3 new police vehicles + purchase of 1 new police vehicle
- Streets - 2016 Road and Sidewalk Project
- Streets - Preservation Projects for Betz Road, Washington Street and Cheney-Spokane Road
- Equipment Rental - Purchase of a new Grader
- Light - Purchase of a new Excavator
- Light - Transformer Purchases for Replacement and New Construction

City of Cheney, Washington – Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$1,534,444	\$1,534,444	\$822,250	\$822,250	\$2,356,694	\$2,356,694
Buildings	2,029,181	2,217,071	9,642,448	10,167,607	11,671,629	12,384,678
Improvements	-	-	1,832,545	1,866,018	1,832,545	1,866,018
Infrastructure	11,578,784	11,514,326	7,658,935	7,978,538	19,237,719	19,492,864
Equipment	941,597	744,537	1,790,316	1,951,732	2,731,913	2,696,269
Construction in Progress			-485	2,192	-485	2,192
Total	\$16,084,006	\$16,010,378	\$21,746,009	\$22,788,337	\$37,830,015	\$38,798,715

Long-Term Debt

At the end of 2016, the City of Cheney had long-term debt totaling \$7,301,000 in both governmental and business-type activities. Of this total debt, \$189,390 is business-type activities due for Public Works Trust Fund Loans, \$6,926,590 represents business-type activities for Department of Ecology Loans, and \$185,020 in interfund loans broken out between \$125,020 in governmental and \$60,000 in business-type activities.

City of Cheney, Washington – Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
PWKS Trust Fund	\$-	\$-	\$189,390	\$213,064	\$189,390	\$213,064
Department of Ecology	-	-	6,926,590	7,599,577	6,926,590	7,599,577
Interfund Loan	125,020	-	60,000	120,000	185,020	120,000
Total	\$125,020	\$	\$7,175,980	\$7,932,641	\$7,301,000	\$7,932,641

The City of Cheney's total long-term debt decreased by \$631,641 (8%).

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2016

ECONOMIC FACTORS AND CHENEY IN THE FUTURE

The State of Washington operates primarily using property, sales, utility and gas taxes. In comparison, the City of Cheney primarily relies on sales, property and utility taxes, in addition to a limited array of permitted other taxes, fees, and state and federal grants to support governmental activities. Recent activity in the Washington State Legislature to sweep funds away from the Public Works Trust Fund will limit the ability of Cheney to finance capital improvements in our streets and public utilities. The City is actively opposing such actions by the Legislature.

For business-type activities, the user pays a related fee for charges associated with the service. There are no governmental taxes or fees for business-type activities. The City Council has approved small rate adjustment in 2016 to offset the rise in operational costs. Rate increases were made after careful analysis of the current and future needs of the utilities.

The sales tax revenue received by the City of Cheney is heavily tied to large capital and development projects both within our City limits and on the Eastern Washington University Campus. We continue to support the University in their efforts for bringing capital improvements to the university campus. The City is in strong support of construction of the new science building on the Cheney campus.

Cheney continues to promote the acquisition of property available within the Cheney Commerce Park and encourage the development of business with the City. Mayor Trulove continues to be heavily invested in the efforts to widen SR904. The five (5) mile stretch of road from Interstate I-90, in addition to additional business development in the commerce park, is a key factor in improving safety along the roadway as well as enhancing our economic development within our community. Additionally, the City is working with the Spokane International Airport on a West Plain rail project to move the Palouse Coulee City Railroad to address issues with public safety, transportation, and to open up additional economic development opportunities within the City of Cheney.

The City continues to look for and develop additional revenue sources to provide the outstanding governmental services our citizens have come to enjoy. The City of Cheney places a high emphasis on maintaining and enriching a high quality of life for our citizenry.

REQUESTS FOR INFORMATION

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

Cindy Niemeier, Finance Director
City of Cheney, Washington
609 Second Street
Cheney, WA 99004
cniemeier@cityofcheney.org
(509) 498-9215

CITY OF CHENEY, WASHINGTON
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	2016 Total
Assets			
Cash and Cash Equivalents	\$ 3,348,539	\$ 5,721,815	\$ 9,070,354
Investments		-	-
Restricted Assets	-	616,611	616,611
<i>Receivables:</i>			
Taxes(Utility and Property)	299,758	1,400,315	1,700,073
Accounts	419,302	309,182	728,484
Interfund Loan	-	251,600	251,600
Due from Other Governments	93,292	-	93,292
Materials and Supplies Inventory	9,901	543,510	553,411
Prepaid Expenses	24,252	16,884	41,136
Land	1,534,444	822,250	2,356,694
Depreciable Capital Assets, Net	14,549,562	20,923,759	35,473,321
Net Pension Asset	345,730	203,047	548,777
Total Assets	20,624,780	30,808,973	51,433,753
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	638,065	374,736	1,012,801
Total Deferred Outflows of Resources	638,065	374,736	1,012,801
Liabilities			
Accounts Payable	163,383	789,567	952,950
Custodial Accounts	-	23,320	23,320
Refunds/Retainage Payable	174,396	6,408	180,804
Unearned Revenue	150,294	-	150,294
Interest Payable - Current Debt	-	4,034	4,034
Capital Lease Payable	39,626		39,626
Interfund Loan Payable - (Due in one year)	6,795	60,000	66,795
External Debt Payable - (Due in one year)	-	696,661	696,661
Wages Payable	-	14,362	14,362
<i>Long-Term Liabilities:</i>			
Long Term Debt	-	7,115,980	7,115,980
Capital Lease	126,207		126,207
Compensated Absences Payable	760,308	386,958	1,147,266
Other Post Employment Benefits Payable	712,268	-	712,268
Net Pension Liability	2,649,532	1,556,074	4,205,606
Interfund Loan Payable	125,020	60,000	185,020
Deposits	1,000	470,475	471,475
Total Liabilities	4,908,829	11,183,839	16,092,668
Deferred Inflows of Resources			
Grants Received in Advance	13,500	-	13,500
Deferred Inflows Related to Pensions	62,959	36,976	99,935
Total Deferred inflows of Resources	76,459	36,976	113,435
Net Position			
Net Investment in Capital Assets	16,084,006	13,933,368	30,017,374
Restricted for:	-	-	-
Inventories and restricted purposes	842,374		842,374
Consumer Deposits	-	470,475	470,475
Debt Service	-	146,136	146,136
Unrestricted (deficit)	(648,823)	5,412,915	4,764,092
Total Net Position	\$ 16,277,557	\$ 19,962,894	\$ 36,240,451

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Statement of Activities
For the Fiscal Year Ended December 31, 2016

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	877,641	139,658	41,482		(696,501)		(696,501)
Judicial	257,485	134,401	151,273		28,189		28,189
Public Safety	4,878,921	768,819	130,506	50,363	(3,929,233)		(3,929,233)
Transportation	1,589,496	16,094	6,293	1,055,918	(511,191)		(511,191)
Economic Environment	459,201	487,657	-		28,456		28,456
Mental and Physical Health	3,038				(3,038)		(3,038)
Culture and Recreation	1,107,105	446,420	142,605	-	(518,080)		(518,080)
Interest	645				(645)		(645)
Total Governmental Activities	9,173,532	1,993,049	472,159	1,106,281	(5,602,043)	-	(5,602,043)
Business-Type Activities:							
Light	9,187,379	9,053,831	337,528	196,249		400,229	400,229
Water	1,349,548	1,250,007	25,241	193,919		119,619	119,619
Solid Waste	1,366,543	1,365,376	7,052	-		5,885	5,885
Sewer	2,663,939	2,678,406	62,742	168,084		245,293	245,293
Total Business-Type Activities	14,567,409	14,347,620	432,563	558,252	-	771,026	771,026
Total Government	23,740,941	16,340,669	904,722	1,664,533	(5,602,043)	771,026	(4,831,017)
		Property Taxes			1,922,484		1,922,484
		Retail Sales & Use Tax			1,800,373		1,800,373
		Utility Taxes			2,177,130		2,177,130
		Excise Taxes			822,256		822,256
		Settlements/Judgements			44,696		44,696
		Interest			14,562		14,562
	Total General Revenues				6,781,501		6,781,501
	Change in Net Position				1,179,458	771,026	1,950,484
	Net Position - Beginning of Year				15,083,676	19,206,321	34,289,997
	Adjustment to Net Position				14,423	(14,453)	(30)
	Net Position - End of Year				\$ 16,277,557	\$ 19,962,894	\$ 36,240,451

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets and Outflows of Resources			
Cash and Cash Equivalents	\$ 1,323,911	\$ 1,890,545	\$ 3,214,456
Investments	-	-	-
Receivables			
Taxes - Property	65,960	11,271	77,231
Taxes - Utility	117,376	105,151	222,527
Contracts/Lease	137,400		137,400
Municipal Court	214,852	-	214,852
Other	28,298	3,204	31,502
Inventories	-	7,007	7,007
Prepayments	24,120	132	24,252
Due from Other Governments	29,736	63,556	93,292
Total Assets	<u>1,941,653</u>	<u>2,080,866</u>	<u>4,022,519</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	75,329	83,146	158,475
Retainage Payable		21,624	21,624
Other Payables	-	152,987	152,987
Deferred Revenue	170,521		170,521
Unearned Revenue	133,393	16,901	150,294
Deposits	1,000	-	1,000
Total Liabilities	<u>380,243</u>	<u>274,658</u>	<u>654,901</u>
Deferred Inflows of Resources			
Grants Received in Advance	13,500	-	13,500
Total Deferred inflows of Resources	<u>13,500</u>	<u>-</u>	<u>13,500</u>
Fund Balances			
	<i>Nonspendable</i>	7,006	7,006
	<i>Restricted</i>	820,868	835,368
	<i>Committed</i>	213,632	213,632
	<i>Assigned</i>	764,702	842,378
	<i>Unassigned</i>	-	1,455,734
Total Fund Balance	<u>1,547,910</u>	<u>1,806,208</u>	<u>3,354,118</u>
Total Liabilities and Fund Balance	<u>\$ 1,941,653</u>	<u>\$ 2,080,866</u>	<u>\$ 4,022,519</u>

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2016

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

Total Governmental Fund Balances: \$ 3,354,118

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	1,534,444	
Buildings and structures	4,665,746	
Improvements	1,765	
Infrastructure	26,586,032	
Machinery and Equipment	3,583,197	
Less: Accumulated Depreciation	<u>(20,478,093)</u>	15,893,091

Deferred Outflows related to Pension - not presented in fund financial statements 638,065

Municipal Court receivables are reported at the fund level with current year deferred liabilities. The government wide statement does not report the current year liability. 170,521

Net Pension Assets are reported in the government-wide statements of Net Position, not in the individual fund statements. 345,730

Long-term liabilities, including compensated absences payable are not due and payable in the current period and therefore, are not reported in the governmental funds. (760,308)

Long-term liabilities, including other post employment benefits payable are not due and payable in the current period and therefore, are not reported in the governmental funds. (712,268)

Long-Term liabilities, including capital lease payable, are not due and payable in the current period and therefore, are not reported in the governmental funds. (165,833)

Long-Term liabilities, including net pension liability, are not due and payable in the current period and therefore, are not reported in the governmental funds. (2,649,532)

Deferred Inflows related to Pension - not presented in fund financial statements (62,959)

Internal service funds are used by management to charge the costs of certain activities to individual funds. Total assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 226,932

Net Position of Governmental Activities \$ 16,277,557

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
 Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended December 31, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 4,367,709	\$ 1,825,356	6,193,065
Licenses and Permits	376,928	24,825	401,753
Intergovernmental	393,402	1,476,952	1,870,354
Charges for Services	1,076,183	458,361	1,534,544
Fines and Forfeits	157,891	-	157,891
Miscellaneous	25,422	41,266	66,688
Total Revenues	6,397,535	3,826,760	10,224,295
Expenditures			
General Government	1,005,068	20,837	1,025,905
Public Safety	4,200,454	579,362	4,779,816
Economic Environment	451,030	18,554	469,584
Mental and Physical Health	3,038	-	3,038
Culture and Recreation	2,030	875,446	877,476
Transportation	-	384,738	384,738
Debt Service: Principal	11,337	-	11,337
Debt Service: Interest	645	-	645
Street Construction	-	1,431,643	1,431,643
Purchase of Capital Assets	51,221	170,866	222,087
Total Expenditures	5,724,823	3,481,446	9,206,269
 Excess of Revenues over Expenditures	 672,712	 345,314	 1,018,026
Other Financing Sources (Uses)			
Special Item	5,000	-	5,000
Insurance Proceeds	36,365	900	37,265
Proceeds from Sale of Capital Assets	-	6,000	6,000
Capital Lease	-	165,834	165,834
Transfers In	-	152,000	152,000
Transfers Out	(146,000)	(6,000)	(152,000)
Increase/Decrease in Fund Equity	-	(18)	(18)
Total Other Financing Sources (Uses)	(104,635)	318,716	214,081
 Net Change in Fund Balances	 568,077	 664,030	 1,232,107
 Fund Balances - Beginning of Year	 979,833	 1,142,178	 2,122,011
 Total Fund Balance End of Year	 \$ 1,547,910	 \$ 1,806,208	 \$ 3,354,118

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
 Reconciliation of Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2016

Net Change in Fund Balance - Total Governmental Funds \$ 1,232,107

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

Internal Service Funds are not included in the Statement of Revenues, Expenditures and Changes in Fund Balances. Those Internal Service Funds are included in the Governmental Activities section of the Statement of Activities because they directly benefit governmental funds. This is the net change in position for the Internal Service Funds	28,407
Depreciation Expense, Depreciation Adjustment, and Wages Payable for Governmental Funds are not included in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. They are included in the Governmental Funds on the Statement of Activities.	(1,748,429) -
Other Post Employment Benefits Payable for Governmental Funds are not included in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. The difference of the OPEB Liability and the actual amount paid on the "pay as you go basis" is included in the Governmental Funds on the Statement of Activities.	(18,743)
Debt Service (lease payment) made on the new Capital Lease is removed from governmental expenditures and a reduction of the Long-Term Liability is made.	(154,497)
Capital Items are included on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. These expenses are moved to capital assets on the Statement of Net Position and are not shown on the Statement of Activities. Annual Depreciation is given in the Statement of Activities to show assets as they are used.	1,653,730
Donated Capital Assets. Not reported in fund statements but included in Capital Assets on Statement of Net Position	50,363
Sale of Capital Asset - reported on fund statements and statement of Net Position.	(6,000)
Governmental fund statements report the current year uncollected revenue. The government-wide statements include the past two years as part of the reported revenue. This amount is the difference between the total court receivable and the deferred revenue.	(54)
Pension Expense and LEOFF 2 state contribution for Pensions are not included in the Governmental funds but included in the Statement of Activities	162,762
increase/Decrease in Fund Equity	18

Change in Net Position of Governmental Activities \$ 1,179,458

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,301,900	\$ 4,301,900	\$ 4,367,709	\$ 65,809
Licenses and Permits	207,500	214,500	376,928	162,428
Intergovernmental	264,000	265,800	393,402	127,602
Charges for Services	2,380,600	2,391,200	1,076,183	(1,315,017)
Fines and Forfeits	140,400	140,400	157,891	17,491
Miscellaneous	206,400	209,400	25,422	(183,978)
Total Revenues	7,500,800	7,523,200	6,397,535	(1,125,665)
Expenditures				
General Government	2,654,200	2,359,300	1,005,068	1,354,232
Public Safety	3,949,300	4,099,000	4,200,454	(101,454)
Physical Environment	484,100	494,100	-	494,100
Economic Environment	270,700	277,700	451,030	(173,330)
Mental and Physical Health	2,700	2,700	3,038	(338)
Culture and Recreation	3,000	3,000	2,030	970
Capital Lease	-	-	-	-
Capital	-	51,100	51,221	(121)
Debt Service: Principal	11,400	11,400	11,337	63
Debt Service: Interest	600	600	645	(45)
Total Expenditures	7,376,000	7,298,900	5,724,823	1,574,077
Excess of Revenues over Expenditures	124,800	224,300	672,712	448,412
Other Financing Sources (Uses)				
Sale of Capital Asset		-	-	-
Special Items			5,000	5,000
Insurance Recoveries	40,000	40,000	36,365	(3,635)
Operating Transfers In	-	-	-	-
Operating Transfers Out	(146,000)	(146,000)	(146,000)	-
Total Other Financing Sources (Uses)	(106,000)	(106,000)	(104,635)	1,365
Net Change in Fund Balances	18,800	118,300	568,077	449,777
Fund Balances - Beginning of Year	1,200	1,700	979,833	978,133
Total Fund Balance - End of Year	\$ 20,000	\$ 120,000	\$ 1,547,910	\$ 1,427,910

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Statement of Net Position
Proprietary Funds
December 31, 2016

	Light	Water	Solid Waste	Sewer	Total Major Funds	Total Enterprise Funds	Internal Service Funds
Assets							
Cash and Cash Equivalents	\$ 2,633,683	\$ 132,271	\$ 842,738	\$ 2,113,123	\$ 5,721,815	\$ 5,721,815	\$ 134,083
Investments	-	-	-	-	-	-	-
<i>Receivables</i>							
Utility	919,109	88,761	136,673	255,772	1,400,315	1,400,315	-
Other	156,831	140,596	1,369	10,386	309,182	309,182	35,548
Interfund loan	131,600	-	-	120,000	251,600	251,600	-
Inventories	287,346	95,847	-	160,317	543,510	543,510	2,894
Prepaid Expenses	10,243	3,152	1,335	2,154	16,884	16,884	-
Total Current Assets	4,138,812	460,627	982,115	2,661,752	8,243,306	8,243,306	172,525
<i>Noncurrent Assets</i>							
Restricted cash, cash equiv, & Invest							
Debt Service Covenant		-	-	146,136	146,136	146,136	-
Custodial	469,575	-	900	-	470,475	470,475	-
Total Restricted Assets	469,575	-	900	146,136	616,611	616,611	-
Net Pension Asset	85,280	28,427	28,427	60,913	203,047	203,047	-
<i>Capital Assets</i>							
Land	64,726	22,386	-	735,138	822,250	822,250	-
Building and Structures	3,854,771	2,401,429	697,831	13,837,115	20,791,146	20,791,146	-
Other Improvements	235,787	36,535	194,324	1,862,323	2,328,969	2,328,969	2,833
Machinery and Equipment	2,072,318	434,352	1,268,689	2,392,857	6,168,216	6,168,216	642,235
Infrastructure	10,119,652	6,766,592	-	7,904,279	24,790,523	24,790,523	-
Construction in Progress	(485)	-	-	-	(485)	(485)	-
Less: Accumulated Depr	(10,522,144)	(5,683,606)	(1,367,786)	(15,581,074)	(33,154,610)	(33,154,610)	(454,153)
Total Capital Assets	5,824,625	3,977,688	793,058	11,150,638	21,746,009	21,746,009	190,915
(net of accumulated depr)							
Total Noncurrent Assets	6,379,480	4,006,115	822,385	11,357,687	22,565,667	22,565,667	190,915
Total Assets	10,518,292	4,466,742	1,804,500	14,019,439	30,808,973	30,808,973	363,440
Deferred Outflow Related to Pensions	157,389	52,463	52,463	112,421	374,736	374,736	-
Liabilities							
<i>Current Liabilities</i>							
Accounts Payable	578,634	116,110	46,245	48,578	789,567	789,567	4,908
Retainage Payable	2,096	4,312	-	-	6,408	6,408	-
<i>Loans Payable: Short Term</i>							
Interfund (due in 2017)	-	60,000	-	-	60,000	60,000	6,580
External (due in 2017)	-	-	-	696,661	696,661	696,661	-
Custodial	795	-	-	-	795	795	-
Wages Payable	14,362	-	-	-	14,362	14,362	-
Customer Payments Held	22,525	-	-	-	22,525	22,525	-
Total Current Liabilities	618,412	180,422	46,245	745,239	1,590,318	1,590,318	11,488
<i>Noncurrent Liabilities</i>							
Loans Payable	-	-	-	7,115,980	7,115,980	7,115,980	-
Accrued Interest Payable	-	-	-	4,034	4,034	4,034	-
Interfund Loan Payable	-	60,000	-	-	60,000	60,000	125,020
Consumer Deposits Payable	469,575	-	900	-	470,475	470,475	-
Compensated Absences	142,028	44,065	39,014	161,851	386,958	386,958	-
Net Pension Liability	653,551	217,850	217,850	466,823	1,556,074	1,556,074	-
Total Noncurrent Liabilities	1,265,154	321,915	257,764	7,748,688	9,593,521	9,593,521	125,020
Total Liabilities	1,883,566	502,337	304,009	8,493,927	11,183,839	11,183,839	136,508
Deferred Inflow Related to Pensions	15,530	5,177	5,177	11,092	36,976	36,976	-
Net Position							
Net Investment in Capital Assets	5,824,625	3,977,688	793,058	3,337,997	13,933,368	13,933,368	190,915
Restricted	469,575	-	900	146,136	616,611	616,611	2,894
Unrestricted	2,482,385	34,003	753,819	2,142,708	5,412,915	5,412,915	33,123
Total Net Position	\$ 8,776,585	\$ 4,011,691	\$ 1,547,777	\$ 5,626,841	\$ 19,962,894	\$ 19,962,894	\$ 226,932

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2016

	Light	Water	Solid Waste	Sewer	Total Major Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues:							
Charges for Services	\$ 9,037,519	\$ 1,244,388	\$ 1,358,655	\$ 2,668,765	\$ 14,309,327	\$ 14,309,327	\$ 35,950
Other Operating Revenues	16,312	5,619	6,721	9,641	38,293	38,293	-
Total Operating Revenues	9,053,831	1,250,007	1,365,376	2,678,406	14,347,620	14,347,620	35,950
Operating Expenses:							
Purchased Power	5,701,493	-	-	-	5,701,493	5,701,493	-
Administration	485,968	480,538	152,120	1,051,838	2,170,464	2,170,464	152
Taxes	314,508	62,427	20,227	68,550	465,712	465,712	-
Depreciation	617,033	288,830	148,512	813,256	1,867,631	1,867,631	7,562
Recycling Center/Litter Control	-	-	12,769	-	12,769	12,769	-
Solid Waste Collection	-	-	871,947	-	871,947	871,947	-
Maintenance	1,134,833	338,320	-	351,906	1,825,059	1,825,059	-
Customer Accounting/Cost Allocation	615,034	175,750	187,949	311,073	1,289,806	1,289,806	-
Fiber Operations	11,239	-	-	-	11,239	11,239	-
Pension Expense (GASB 68)	97,075	(279)	(26,981)	55,353	125,168	125,168	-
Total Operating Expenses	8,977,183	1,345,586	1,366,543	2,651,976	14,341,288	14,341,288	7,714
Operating Income (Loss)	76,648	(95,579)	(1,167)	26,430	6,332	6,332	28,236
NonOperating Revenues							
Investment Earnings	7,381	142	2,768	11,263	21,554	21,554	171
Interest Expense	-	(3,962)	-	(11,963)	(15,925)	(15,925)	-
Miscellaneous Revenue	116,287	20,781	600	29,509	167,177	167,177	-
Intergovernmental	173,999	3,498	3,036	21,632	202,165	202,165	-
Sale of Surplus	7,461	-	648	338	8,447	8,447	-
Sale of Capital Asset	32,400	-	-	-	32,400	32,400	-
Conservation	(210,196)	-	-	-	(210,196)	(210,196)	-
Insurance Recovery	-	820	-	-	820	820	-
Increase/Decrease in Fund Equity	-	(12)	-	(14,441)	(14,453)	(14,453)	14,441
Total Nonoperating Revenue/ (Expenses)	127,332	21,267	7,052	36,338	191,989	191,989	14,612
Income (loss) before contributions	203,980	(74,312)	5,885	62,768	198,321	198,321	42,848
Capital Contributions	196,249	193,919	-	168,084	558,252	558,252	-
Increase (Decrease) in Net Position	400,229	119,607	5,885	230,852	756,573	756,573	42,848
Net Position, January 1	8,376,356	3,892,084	1,541,892	5,395,989	19,206,321	19,206,321	184,084
Net Position, December 31	\$ 8,776,585	\$ 4,011,691	\$ 1,547,777	\$ 5,626,841	\$ 19,962,894	\$ 19,962,894	\$ 226,932

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended December 31, 2016

	Light	Water	Solid Waste	Sewer	Total Major Funds	Total Enterprise Funds	Internal Service Funds
Cash Flow from Operating Activity							
Received from Customers	\$ 8,853,984	\$ 1,242,526	\$ 1,368,509	\$ 2,634,908	\$ 14,099,927	\$ 14,099,927	\$ 65,207
Payments for goods and services	(8,509,368)	(985,822)	(1,289,816)	(1,747,048)	(12,532,054)	(12,532,054)	(63,613)
Net cash provided by operations	\$ 344,616	\$ 256,704	\$ 78,693	\$ 887,860	\$ 1,567,873	\$ 1,567,873	\$ 1,594
Cash Flow Non Capital Financing Activities							
Received from other sources	441,580	89,302	4,284	204,705	739,871	739,871	146,041
Payments nonoperating expense	(210,196)	-	-	-	(210,196)	(210,196)	-
Interest on interfund loan	-	(3,962)	-	3,962	-	-	-
Interfund Loan	(131,600)	(60,000)	-	60,000	(131,600)	(131,600)	-
Net cash nonoperating activities	99,784	25,340	4,284	268,667	398,075	398,075	146,041
Cash Flow from Investing Activities							
Receipts of interest & dividends	7,381	142	2,768	7,301	17,592	17,592	171
Net cash investing activity	7,381	142	2,768	7,301	17,592	17,592	171
Cash Flow Capital Financing							
Received from grants and loans	87,742	-	-	-	87,742	87,742	-
Payments/interest on debts	-	-	-	(706,590)	(706,590)	(706,590)	-
Payments for capital acquisitions	(429,513)	(323,777)	-	(72,014)	(825,304)	(825,304)	(131,528)
Net cash used in capital financing	(341,771)	(323,777)	-	(778,604)	(1,444,152)	(1,444,152)	(131,528)
Net Increase in cash equivalents	110,010	(41,591)	85,745	385,224	539,388	539,388	16,278
Cash and Equivalents, January 1	2,993,248	173,862	757,893	1,874,035	5,799,038	5,799,038	117,805
Cash and Equivalents, December 31	\$ 3,103,258	\$ 132,271	\$ 843,638	\$ 2,259,259	\$ 6,338,426	\$ 6,338,426	\$ 134,083
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating Income (Loss)	\$ 76,648	\$ (95,579)	\$ (1,167)	\$ 26,430	\$ 6,332	\$ 6,332	\$ 28,368
Adjustments used to reconcile operating income to net cash provided (used) by operating activities							
Depreciation	617,033	288,830	148,512	813,256	1,867,631	1,867,631	7,562
Pension Expense (GASB 68)	97,075	(279)	(26,981)	55,353	125,168	125,168	-
(Increase) decrease in acct receivable	(199,847)	(7,481)	3,133	(43,498)	(247,693)	(247,693)	(34,337)
(Increase) decrease in inventories	(3,595)	(3,521)	-	145	(6,971)	(6,971)	1,199
(Increase) decrease in prepaid expenses	(66)	(1,641)	-	199	(1,508)	(1,508)	-
Increase (decrease) in acct payable	(229,165)	77,389	(55,151)	32,916	(174,011)	(174,011)	(1,198)
Increase (decrease) in compensated absences payable	(17,982)	(1,014)	10,347	3,059	(5,590)	(5,590)	-
Increase (decrease) customer credits	4,515	-	-	-	4,515	4,515	-
Adjustment to Net Position - See Note 19	-	-	-	-	-	-	-
Total Adjustments	267,968	352,283	79,860	861,430	1,561,541	1,561,541	(26,774)
Net Cash Provided by Operating Activities	\$ 344,616	\$ 256,704	\$ 78,693	\$ 887,860	\$ 1,567,873	\$ 1,567,873	\$ 1,594

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

		Agency Funds 2016
<hr/>		
Assets		
Cash and Cash Equivalents	\$	32,290
Receivable		50
Investments		-
Total Assets		<u>32,340</u>
Deferred Outflows of Resources		<u>-</u>
Liabilities		
Held for Future Year Disbursement		32,340
Accounts Payable		-
Total Liabilities		<u>32,340</u>
Deferred Inflows of Resources		<u>-</u>
Net Position	\$	<u>-</u>

The Notes to the Financial Statements are an Integral Part of this Statement

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements of the City of Cheney have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Cheney was incorporated November 28, 1883 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. The City is governed by an elected mayor and seven elected council members.

The City's financial statements include the financial position and results of operations of all funds that are controlled by or dependent on the City. The financial statements include the assets and liabilities of all funds for which the City has a custodial or trust responsibility.

Control by the City was determined on the basis of budget adoption and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total non-grant resources. Applying these criteria, the financial statements do not include the financial position or results of operations for:

Spokane County Library District. The City does not review their budget and is not responsible for the District's debt. The City does have an agreement with the District to provide space for the library.

Spokane County Air Pollution Control Authority. The City has no involvement in the Authority's budget, enforcement or maintenance. The authority for this organization is granted by the State and makes mandatory membership of all small cities. Contributions from the cities are set by formula and are mandatory.

Spokane County Alcoholism Program. The City has no alcoholism program; thus the County handles all programs relating to alcoholism for all cities without appropriate programs. State law allows for this type of arrangement whenever a city cannot put in place a program. Assessment is a percentage of the alcohol tax which is disbursed to the County to conduct the alcoholism program.

B. Basis of Presentation - Government-Wide and Fund 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. Government 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.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by the given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not property included among program revenues are reported instead as general revenues.

The effect of the interfund activity has been eliminated for the government-wide financial statements.

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The City of Cheney reports the following major governmental fund:

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

The City of Cheney reports the following major enterprise funds: Light, Water, Solid Waste and Sewer.

Light Fund. This fund accounts for the operations of providing electrical utility services.

Water Fund. This fund accounts for operations of providing water utility services.

Solid Waste Fund. This fund accounts for the operations of providing solid waste collection and recycling services.

Sewer Fund. This fund accounts for the operations of providing wastewater collection and wastewater treatment services.

Additionally, the City of Cheney reports the following fund types:

Internal Service Funds. These funds account for unemployment compensation and equipment rental provided to other departments on a cost-reimbursement basis.

C. Measurement Focus, Basis of Accounting

1. Government Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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 both are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, utility taxes, licenses, and interest are considered to be subject to accrual and have been recognized as revenues of the current fiscal period. Sales taxes are not accrued and are recognized when received as sales tax disbursements are made by the State of Washington two months after reported from the business. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City's general spending prioritization policy is to consider restricted resources first, followed by committed, assigned, and unassigned amounts when expenditures have been incurred for which resources in more than one classification could be used.

2. Proprietary Funds

The Proprietary fund statements are reported using the same economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows.

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 City of Cheney are charges for services. Operating expenses for the City proprietary funds includes purchased power, infrastructure maintenance, solid waste disposal costs, sewer collection and treatment, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds, except for agency funds. Governmental fund budgets are adopted on the modified-accrual basis of accounting and the proprietary fund budgets are adopted using the accrual basis of accounting.

Annual appropriated budgets are adopted at the level of the fund, and the budgets constitute the legal authority of expenditures at that level. Subsidiary revenue and expenditure ledgers are

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

used to compare budgeted amounts with actual revenues and expenditures. Annual appropriations for all funds lapse at year end.

Encumbrance accounting is employed in all funds. Encumbrances (purchase orders) outstanding at year end do not constitute expenditures or liabilities because commitments will be re-appropriated and honored during the subsequent year.

2. Amending the Budget

The Finance Director is authorized to transfer budgeted amounts between two object classes within departments, except for changes to salaries. Budget transfers for wages and related benefits can only be authorized by the Mayor or City Administrator. Any revisions that alter the total expenditures in a fund, or that affect the number of authorized employee positions, salary ranges, or other conditions of employment must be authorized by City Council.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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, and other legally authorized changes applicable for the fiscal year.

The city reports one governmental fund – Criminal Justice - over the authorized budget in 2016. The fund entered into a new capital lease for police cars. GAAP requires the full amount of the lease to be expensed in the fund and capitalized in the governmental wide statements. The annual lease payment was included in the authorized budgeted, not the entire lease amount.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the City of Cheney's policy to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding \$7,312,731 in short term investment of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents as well as investments in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents can also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balance maintained during 2016 was \$3,414,597.

For purposes of the statement of cash flows, the City of Cheney considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments (Deposits and Investments Note No. 5).

3. Receivables

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Taxes receivable consist of both property tax receivables including property taxes and related interest and penalties (See Property Tax Note No. 6), and utility tax receivable at year end. Accrued interest receivable consists of amounts earned on investments at the end of the year. There are currently the following utility taxes being assessed on City of Cheney utilities:

Electric	14.75% *
Water	11%
Solid Waste	6%
Sewer	11%

*14.75% electric utility tax is broken down into 6% electric, 4% Residential Street, and 4.75% Parks and Recreation

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

4. Amounts Due to and from Other Funds

Activities between funds, that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as "interfund loans receivable/payable." A separate schedule of Interfund loans receivable and payable is furnished in (Interfund Balances and Transfers Note No. 17).

5. Inventories

Inventories on governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time the individual items are consumed. A comparison to market value is not necessary.

Inventories in proprietary funds are valued by the weighted average method which approximates to market value.

6. Restricted Assets and Liabilities

These accounts contain resources for debt service and utility consumer deposits in enterprise funds. Specific debt service requirements are described in (Long Term Debt Note No. 12).

The following table reports the restricted assets for the enterprise funds:

Enterprise Funds	
Light Fund – Utility Consumer Deposits	\$469,575
Solid Waste Fund – Utility Consumer Deposits	900
Sewer Fund – Payment of Debt	146,136
Total	<u>\$616,611</u>

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

7. Capital Assets (Capital Assets Note No. 7)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City of Cheney as assets with an initial, individual cost of more than \$7,500 and an estimated useful life of five or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building and Improvements	\$7,500	Straight-Line	10 - 40 Years
Equipment	\$7,500	Straight-Line	5 – 30 Years
Roads-Collectors and Arterials	\$7,500	Straight-Line	20 years
Electrical Distribution Systems	\$7,500	Straight-Line	20 – 30 Years
Water Systems	\$7,500	Straight-Line	20 – 100 Years
Sewer Collection and Treatment	\$7,500	Straight-Line	20 – 75 Years

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Vacation pay may be accumulated and carried into future fiscal years, up to thirty (30) days. This leave is payable upon separation, retirement or death.

Department Heads, Mid-Management, and Management employees may accumulate a maximum sick leave of 180 days. 100% of outstanding sick leave up to 30 days, 31st – 180th day will be compensated at 25% upon retirement, separation, or death.

Non-union employees may accumulate a maximum sick leave of 180 days. 100% of outstanding sick leave up to 30 days, 31st – 180th day will be compensated at 25% upon retirement, separation, or death.

Sick leave may accumulate to a total of 180 days for AFSCME S members. 100% of outstanding sick leave for the 30 days, 25% for the 31st – 180th day is payable upon retirement or death. Upon separation or layoff, AFSCME S member is eligible for 25% of all sick leave over 480 hours.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Sick leave may accumulate to a total of 150 days for AFSCME C members. 100% of outstanding sick leave for the 24 days, 25% for 25th– 150th day is payable upon retirement, death, or layoff.

Members of IBEW may accumulate 120 days of sick leave and upon death, retirement, or permanent layoff after five (5) years of service will receive 100% of the first 24 days, and 25% of the remainder, in cash.

LEOFF II members of the IAFF may accumulate 40 shifts of sick leave and receive 25% upon retirement.

LEOFF II (law enforcement) may accumulate 120 days sick leave and will receive 25% upon retirement.

The City of Cheney accrual is based on 100% of hours accrued up to contracted limits, based on the vesting method.

	Accumulated Sick	Vacation	Unpaid Amounts at 12/31/16
Governmental Funds	\$370,539	\$389,769	\$760,308
Proprietary Funds	216,067	170,891	386,958
Total	\$586,606	\$560,660	\$1,147,266

The above table shows the sick and vacation accruals at December 31, 2016. In addition, there is \$14,362 accumulated as wages/benefits payable in Business Type Activities (Light Fund).

9. Pensions

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

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt (Long-Term Debt Note No. 12).

12. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. The City of Cheney reports unearned revenue of \$16,901 in the governmental activities. 2017 revenues from early recreation registrations and business licenses renewals were received in 2016.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

13. Fund Balance Classification

The City of Cheney recognizes the following fund balance components per Governmental Accounting Standards Board (GASB) No. 54:

- Nonspendable Fund Balance
 - Portion of net resources that cannot be spent because of their form
 - Portion of net resources that cannot be spent because they must be maintained intact.

- Restricted Fund Balance
 - Limitations imposed by creditors, grantor, contributors, or laws and regulations of other governments.
 - Limitations imposed by law through constitutional provisions or enabling legislation (RCW).

- Committed Fund Balance
 - Limitation imposed at the highest level of decision making.
 - Committed fund balance must be set annually by City Council.

- Assigned Fund Balance
 - Intended use by body designated for that purpose.
 - Assigned fund balance is set annually by Finance Committee of City Council.

- Unassigned Fund Balance
 - Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance.
 - Excess of nonspendable, restricted, and committed fund balance over fund balance in special revenue funds.

14. Fund Balance Details

The City of Cheney will spend the fund balances in the following order:

1. Restricted
2. Committed
3. Assigned

Process for Committing Funds

- The City Council, being the highest decision making authority of the City of Cheney, shall be the sole designator of committed funds.
- The Finance Director will, at a minimum on an annual basis, and before the end of the fiscal year, bring a resolution to the City Council with a listing of resources to be committed to specific special revenue funds.
- Such resources can only be removed from that commitment by the City Council
- Approval of an annual budget does not qualify as commitment of resources under GASB 54.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Governmental Funds – Fund Balance Designation – Detail by Specific Purpose			
Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable:</i>			
Inventory	\$ -	\$7,006	\$7,006
<i>Restricted for:</i>			
Road Construction/Streets			
Public Safety		323,939	323,939
Culture and Recreation		5,000	5,000
Cash Escrow Deposit	1,000		1,000
Public Defense	13,500		13,500
Tourism		106,647	106,647
Capital/CIP Approved		385,282	385,282
<i>Committed to:</i>			
Road Construction/Streets		97,543	97,543
Public Safety		68,454	68,454
City Beautification		47,635	47,635
<i>Assigned to:</i>			
Road Construction/Streets		217,716	217,716
Public Safety	1,144	161,253	162,397
Culture and Recreation	530	383,710	384,240
Information Technology	76,002		76,002
Tourism		498	498
City Beautification		307	307
Capital/CIP Approved		1,218	1,218
<i>Unassigned:</i>	1,455,734	0	1,455,734
Totals	\$1,547,910	\$1,806,208	\$3,354,118

15. Minimum Fund Balance

The City of Cheney will maintain an adequate unrestricted fund balance to allow for a cash reserve and for cash flow purposes in current and future fiscal periods. This fund balance will be reported in the committed, assigned, and unassigned categories of the general fund in the annual financial report.

Fund balance will be monitored closely by the Finance Director. If the fund balance should change (+/-) by 5% annually, the Finance Director will report the variance to the City Administrator and Mayor and prepare a plan for use or replenishment of fund balance.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position.

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditures, and changes in fund balances include 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.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4 - ACCOUNTING AND REPORTING CHANGES

There have been no accounting and reporting changes in 2016.

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

The City of Cheney's deposits are entirely covered by federal depository insurance (FDIC) or by collateral help in a multiple financial institution collateral pool administered by Washington Public Deposit Protection Commission (PDPC).

On December 31, 2016, the carrying amount of the City's cash demand deposit with Banner Bank was \$2,367,401. Petty Cash on hand was \$7,500.

Additionally, the City of Cheney Municipal Court recorded a carrying amount in the court account of \$31,624.

B. Investments

As of December 31, 2016, the City of Cheney had the following investments:

Investment	Fair Value	Total
State Investment Pool	\$7,312,731	\$7,312,731
Total	\$7,312,731	\$7,312,731

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Custodial credit risk is the risk that in the event of a failure of counterparty to an investment transaction, the City of Cheney would not be able to recover the value of the investment of collateral securities. Of the City of Cheney's total position, \$0 is exposed to custodial credit risk because investments are held by the City of Cheney's brokerage firm, which is also the counterparty in those particular securities.

NOTE 6– PROPERTY TAX

The County Treasurer acts as an agent to collect property tax levied in County for all taxing authorities.

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

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

The City of Cheney may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services. The City of Cheney's regular levy for 2016 was 3.10 per \$1,000 on an assessed valuation of \$538,271,848 for a total regular levy of \$1,668,643 before adjustments by the Spokane County Assessor.

Washington State Constitution and Washington State Law, RCW 84.52.043 limit the rate.

NOTE 7 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2016 was as follows:

	Beginning Balance 1/01/2016	Increases	Decreases/ Adjustments	Ending Balance 12/31/2016
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$1,534,444	\$	\$	\$1,534,444
Capital Assets, being depreciated:				
Buildings	4,665,746			4,665,746
Other Improvements	4,598			4,598
Machinery & Equipment	3,891,805	183,562	150,067	4,225,434
Infrastructure	25,158,427	1,433,605	-6,000	26,586,032
Total Capital Assets being depreciated	32,720,576	1,617,167	144,067	35,481,810

CITY OF CHENEY, WASHINGTON
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For the Year Ended December 31, 2016

Less Accumulated Depreciation for:				
Buildings	2,448,675	187,890		2,636,565
Other Improvements	4,598			4,598
Machinery & Equipment	3,147,268	204,954	-68,385	3,283,837
Infrastructure	13,644,101	1,363,147		15,007,248
Total Accumulated Depreciation	19,244,642	1,755,991	-68,385	20,932,248
Total Capital Assets, being depreciated, Net	14,475,934	-138,824	212,452	14,549,562
Governmental Activity, Capital Assets, Net	\$16,010,378	-\$138,824	\$212,452	\$16,084,006

	Beginning Balance 1/01/2016	Increases	Decreases/ Adjustments	Ending Balance 12/31/2016
Business-Type Activities				
Capital Assets, not being depreciated:				
Land and Construction in Progress	\$822,250			\$822,250
Capital Assets, being depreciated				
Buildings	20,683,369	107,777		20,791,146
Other Improvements	2,328,969			2,328,969
Machinery & Equipment	6,262,077	188,760	-282,621	6,168,216
Infrastructure	24,259,079	531,444		24,790,523
Total Assets being depreciated	53,533,494	827,981	-282,621	54,078,854
Less Accumulated Depreciation for:				
Building	10,515,763	632,936		11,148,699
Other Improvements	462,951	33,474		496,425
Machinery & Equipment	4,310,344	350,177	-282,621	4,377,900
Infrastructure	16,280,541	851,045		17,131,586
Total Accumulated Depreciation	31,569,599	1,867,631	-282,621	33,154,610
Total Capital Assets, being depreciated, net	21,963,895	-1,039,651		20,924,244
Work in Progress/Not yet Assigned	2,192		-2,677	-485
Business-type Activity, Capital Assets, Net	\$22,788,337	-\$1,039,651	-\$2,677	\$21,746,009

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$153,925
Security of Persons/Property	130,431
Economic Environment	1,646
Transportation	1,221,398
Culture and Recreation	241,029
Total Depreciation – Governmental Activities	\$1,748,429
Business-Type Activities:	
Light	\$617,033
Water	288,830
Solid Waste	148,512
Sewer	813,256
Total Depreciation – Business type Activities	\$1,867,631

All reported capital assets of the City of Cheney are depreciated except for land. Improvements are commonly depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 8 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016.

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$4,205,606
Pension Assets	\$548,777
Deferred outflows of resources	\$1,012,801
Deferred inflows of resources	(\$99,935)
Pension expense/expenditures	\$621,837

Substantially all City of Cheney 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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement accounts.

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.

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

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

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

CITY OF CHENEY, WASHINGTON
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Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administration Fee	0.18%	-
Total	11.18%	6.00%

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

The City of Cheney’s actual contributions to the plan were \$8,137 for the year ended December 31, 2016.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3		Varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%

The City of Cheney’s actual contributions to the plans were \$464,830 for the year ended December 31, 2016.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last ten years of service. Members are eligible for

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retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	-
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	-
Total	8.59%	8.41%

The City of Cheney's actual contributions to the plan were \$113,273 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For

CITY OF CHENEY, WASHINGTON
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the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the City of Cheney as its proportionate share of this amount is \$70,190.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- * For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- * Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- * New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test.

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Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$2,348,482	\$1,947,494	\$1,602,419
PERS 2/3	\$4,157,590	\$2,258,112	-\$1,175,477
LEOFF 1	-\$82,839	-\$139,449	-\$187,839
LEOFF 2	\$1,147,868	-\$409,328	-\$1,583,002

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Notes to the Basic Financial Statements
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Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the City of Cheney reported a total pension asset of \$548,777 and a total pension liability of \$4,205,606 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1 (Liability)	\$1,947,494
PERS 2/3 (Liability)	2,258,112
LEOFF 1 (Asset)	\$139,449
LEOFF 2 (Asset)	\$409,328

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$139,449	\$409,328
State's proportionate share of the net pension asset associated with the employer		70,190
TOTAL	\$139,449	\$479,518

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.035051%	.036263%	.001212%
PERS 2/3	.043559%	.044849%	.00129%
LEOFF 1	.014061%	.013535%	-.000526%
LEOFF 2	.068166%	.070376%	.00221%

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

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LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City of Cheney recognized pension expense as follows:

	Pension Expense
PERS 1	-\$37,063
PERS 2/3	61,310
LEOFF 1	-12,767
LEOFF 2	-49,074
TOTAL	\$-37,594

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City of Cheney reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$49,035	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$101,326	\$0
TOTAL	\$150,361	\$0

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$120,243	(\$74,544)
Net difference between projected and actual investment earnings on pension plan investments	\$276,328	\$0
Changes of assumptions	\$23,339	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$40,703	(\$11,561)
Contributions subsequent to the measurement date	\$127,239	\$0
TOTAL	\$587,852	(\$86,105)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$14,175	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
TOTAL	\$14,175	\$0

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$56,089	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$147,088	\$0
Changes of assumptions	\$1,543	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$1,071	(\$14,901)
Contributions subsequent to the measurement date	\$55,693	\$0
TOTAL	\$261,484	(\$14,901)

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

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Year ended December 31:	PERS2/3	LEOFF 2
2017	\$7,903	-\$2,725
2018	\$7,903	-\$2,725
2019	\$10,793	-\$2,725
2020	\$2,544	-\$2,725
2021	\$0	-\$2,929
Thereafter	\$0	\$0

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members necessary hospital, medical, and nursing care expenses not payable by worker’s compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the city’s employee medical insurance programs. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the City’s Annual Report.

Funding Policy

Funding for LEOFF retire healthcare costs is provided entirely by the city as required by RCW. The City’s funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The City of Cheney used the alternative measurement permitted under GASB Statement No. 45. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the State-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with four active grouping and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The City’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2006.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB. The net OPEB obligation of \$712,268 is included as a noncurrent liability on the Statement of Net Position. ARC for the 2016 fiscal year is \$196,499.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	City Contribution	Net OPEB Obligation
12/31/2008	\$327,408	44.83%	\$160,819	\$166,589
12/31/2009	\$303,277	55.20%	\$167,396	\$302,470
12/31/2010	\$254,861	60.42%	\$153,980	\$403,351
12/31/2011	\$235,354	44.68%	\$125,977	\$512,728
12/31/2012	\$220,616	36.16%	\$137,348	\$595,996
12/31/2013	\$198,462	29.22%	\$129,224	\$665,234
12/31/2014	\$187,004	26.73%	\$166,809	\$685,429
12/31/2015	\$172,522	24.38%	\$164,426	\$693,525
12/31/2016	\$162,454	22.37%	\$143,711	\$712,268

NOTE 10 – RISK MANAGEMENT

The City of Cheney is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of over 168 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

No insurance settlements have exceeded insurance coverage in 2016 or either of the two preceding fiscal years.

Medical Insurance

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

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

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

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

NOTE 11 – SHORT TERM DEBT

The City of Cheney is not holding any short-term debt for the year ending December 31, 2016. Please see Note 14 for the 2016 payments of long-term liabilities.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 12 – LONG TERM DEBT

The following schedule of Long-Term Debt provides a listing of outstanding external debt of the City. The annual requirements to amortize the debt, including interest are as follows:

Year Ending December 31,	Principal	Interest	Total
2018	698,726	7,874	706,600
2019	700,822	5,660	706,482
2020	702,949	3,414	706,363
2021	632,041	1,136	633,177
2022	559,517	474	559,991
2023-2027	2,750,238	710	2,750,948
2028-2032	1,071,687	0	1,071,687
Total	\$7,115,980	\$19,268	\$7,135,248

All above referenced long-term debt has a fixed interest rate. The short term portion of the long term debt, due in 2017, is comprised of principal \$696,661 and interest \$4,034 for a total amount due of \$700,695.

NOTE 13 – LEASES

A. Operating Leases

The City of Cheney leases various pieces office equipment and an IBM i-series AS400 under noncancelable operating leases. Total cost for such leases was \$64,540 for the year ended December 31, 2016.

The future minimum lease payments for these leases are as follows:

Year Ending December 31,	Amount
2017	63,445
2018	60,193
2019	23,194
2020	14,660
2021	9,086
Total	\$170,578

B. Capital Leases

The City of Cheney entered into a four year agreement in 2016 for financing three (3) police vehicles. The lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Assets
Police Car Leases (3)	\$179,675
(Less Depreciation)	(5,603)
Total	\$174,072

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Below is the remaining obligation and the net present value of the minimum lease payments as of 2016.

Year Ending December 31	Governmental Activities
2017	\$44,919
2018	44,919
2019	44,919
2020	44,918
Total Minimum Lease Payments	\$179,675
Less: Interest	(13,841)
Present Value of Minimum Lease Payments	\$165,834

C. Long-Term Leases on City Property

The City of Cheney entered into a ten year lease agreement on use of City Property. The lease began September, 2016 with regular lease payment to begin January, 2017. The lease has an auto increase in 2019 and will be reviewed against the property assessed valuation in 2021, 2023, and 2025. The total contract is being held as a receivable in the governmental activities. The following is a table displaying the amount of revenue to be received annually and the revenue to be recognized in the financial statements:

Year Ending	Annual Lease Payment	Recognized Revenue
2016	\$0	\$4,007
2017	13,200	13,740
2018	13,200	13,740
2019	14,400	13,740
2020	14,400	13,740
2021 *	14,400	13,740
2022	14,400	13,740
2023 *	14,400	13,740
2024	14,400	13,740
2025 *	14,400	13,740
2026	10,200	9,733
Totals	\$137,400	\$137,400
* Property will be reassessed and contract lease payment will be adjusted to increases in the assessed valuation.		

NOTE 14 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities, as presented on the Statement of Net Position:

	Beginning Long-Term 1/1/2016	Additions	Reductions	Ending Long-Term 12/31/2016	Current L-T Portion Due One Year
Governmental Activities:					
Interfund Loan Payable	\$-	\$131,600	\$-	\$131,600	\$6,580
Capital Leases	11,337	165,833	11,337	165,833	39,626
OPEB Payable	693,525	18,743	-	712,268	-
Pension Liability	2,305,119	344,413	-	2,649,532	-

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Compensated Absences	740,102	20,206		760,308	-
Government Activity Long-Term Liabilities	\$3,750,083	\$680,795	\$11,337	\$4,419,541	\$46,206
Business-Type Activities:					
Internal Loan Payable	\$180,000	\$-	\$60,000	\$120,000	\$60,000
External Loan Payable	8,507,268	-	694,627	7,812,641	696,661
Pension Liability	1,084,762	471,312	-	1,556,074	-
Compensated Absences	364,680	22,278	-	386,958	-
Business-type Activity Long-Term Liabilities	\$10,136,710	\$493,590	\$754,627	\$9,875,673	\$756,661

Internal service funds predominately serve the governmental funds and any long-term liability for the internal service funds would be included in the above governmental activities. The interfund loan payable in the governmental activities is being held in the internal service funds.

NOTE 15 – CONTINGENCIES AND LITIGATION

In the opinion of the management, the City’s insurance policies and/or self-insurance reserves are adequate to pay all known pending claims.

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

As of December 31, 2016, there are no pending claims against the City.

NOTE 16 – RESTRICTED NET POSITION

The government-wide statement of net position reports \$842,374 of restricted component of net position in the Governmental Activities for inventories and restricted revenues. Additionally, The City of Cheney reports \$616,611 of restricted component of net position in the Business-Type Activities for consumer utility deposits and debt service.

NOTE 17 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at December 31, 2016 were as follows:

		Due From			
Due To		Water	Equip Rental	Arterial Street	Total
	Sewer	120,000			120,000
	Light		131,600		131,600
	Residential St			215	215
	Total	\$120,000	\$131,600	\$215	\$251,815

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The interfund balances are a result of interfund loans. The City of Cheney utilizes reserve balances in other funds to provide short and long term interfund loans to other funds. The interest rate is 1% above what the loaning fund is receiving from the Washington State Investment Pool. There is no interest charged on operational loans between street funds.

The loans, their purpose, and expectation of being repaid within one calendar year from the date of these statements are listed below:

Loan	Purpose	Repaid in 2017
Water	Operational and Equipment	No
Equipment Rental	Purchase of Grader	No
Arterial Street	Operational until grant funds received	Yes

B. Interfund Transfers

Interfund transfers at December 31, 2016 were as follows:

Transfer To	Transfer From			
	General Fund	Street Fund	Regular – Purpose	Total
Street Fund	\$146,000		Regular – Street Operations	\$146,000
Arterial Street		6,000	Sale of Arterial Right of Way	6,000
Total	\$146,000	\$6,000		\$152,000

NOTE 18 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2016 were as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts	\$419,087	\$309,182	\$728,269
Taxes (Property & Utility)	299,758		299,758
Utilities		1,400,315	1,400,315
Due from Other Governments	93,292	-	93,292
Interfund Loan	215	251,600	251,815
Totals	\$812,352	\$1,961,097	\$2,773,449

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

B. Payables

Payables at December 31, 2016 were as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts	\$163,383	\$789,567	\$952,950
Custodial Accounts	-	23,320	23,320
Mitigation/Retainage	174,396	6,408	180,804
Interest	-	4,034	4,034
Capital Lease	165,833	-	165,833
Loans/Debt	131,815	7,932,641	8,064,456
Compensated Absences/Wages	760,308	401,320	1,161,628
Post-Employment Benefits	712,268	-	712,268
Pension Liability	2,649,532	1,556,074	4,205,606
Totals	\$4,757,535	\$10,713,364	\$15,470,899

NOTE 19 – INTERGOVERNMENTAL REVENUES OF THE GENERAL FUND

The city annually records and monitors time spent by the Office of the Mayor and the Finance Department for the Finance and Executive charges and the Public Works Administration Staff for the Public Works Administration charges to accurately reflect the time charge to the proprietary funds for those charges for services performed by the general fund. The funds are classified as an operating expense in the Street, Light, Water, Solid Waste and Sewer funds and are recorded in the General Fund. At year end, the revenue is closed into the general fund expense accounts to allow for one expense to be recorded in the financial statements for those operating expenses. In 2016, \$932,348 was closed in the expense accounts in the Mayor’s office, Finance Department, and Legal Services division. \$335,702 was closed into Public Works Administration to account for the maintenance and operations cost of Public Works Administration.

NOTE 20 – INCREASES/DECREASES TO FUND EQUITY

The following table identifies all increases/decreases to fund equity

Fund	Amount	Reason for Adjustment
<i>Governmental Activity:</i>		
Parks and Recreation	-\$18	Write offs of prior period recreation fees
Mechanical Shop	14,441	Unbilled fuel consumption from 2015
Total Governmental Activity Adjustment	\$14,423	
<i>Business-Type Activity:</i>		
Water Fund	-\$12	Uncollectable prior period receivable
Sewer Fund	-14,441	Unbilled fuel consumption from 2015.
Total Business-Type Activity Adjustment	-\$14,453	

Other Post Employment Benefits						
Required Supplementary Information						
LEOFF 1 Retiree Medical Benefits						
Schedule of Funding Progress						
Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2007	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2008	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2009	\$ -	\$3,350,403	\$3,350,403	0%	\$ -	0%
12/31/2010	\$ -	\$2,900,648	\$2,900,648	0%	\$ -	0%
12/31/2011	\$ -	\$2,743,277	\$2,743,277	0%	\$ -	0%
12/31/2012	\$-	\$2,641,514	\$2,641,514	0%	\$ -	0%
12/31/2013	\$-	\$2,446,620	\$2,446,620	0%	\$ -	0%
12/31/2014	\$-	\$2,359,344	2,359,344	0%	\$ -	0%
12/31/2015	\$-	\$2,214,249	\$2,214,249	0%	\$-	0%
12/31/2016	\$	\$2,110,306	\$2,110,306	0%	\$-	0%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Cheney, Washington
 Schedule of Employer Contributions
 As of December 31, 2016
 Last 2 Fiscal Years

PERS 1		
	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 207,365	180,544
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (207,365)	(180,544)
<u>Contribution deficiency (excess)</u>	\$ 0	0
<u>Employers Covered Employee Payroll</u>	\$ 72,783	\$ 68,388
PERS 2		
	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 260,908	223,074
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (260,908)	(223,074)
<u>Contribution deficiency (excess)</u>	\$ 0	0
<u>Employers Covered Employee Payroll</u>	\$ 4,105,769	3,992,840
LEOFF 1		
	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 0	0
<u>Employers Proportionate share of Net Pension Liability</u>	\$ 0	0
<u>Contribution deficiency (excess)</u>	\$ 0	0
<u>Employers Covered Employee Payroll</u>	\$ 0	0
LEOFF 2		
	2016	2015
<u>Statutorily or contractually required contributions</u>	\$ 109,375	104,139
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (109,375)	(104,139)
<u>Contribution deficiency (excess)</u>	\$ 0	0
<u>Employers Covered Employee Payroll</u>	\$ 2,188,461	\$ 2,075,966

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
City of Cheney, Washington
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last 2 Fiscal Years

PERS 1		
	2016	2015
Employer's proportion of the net pension liability (asset) %	0.036263	0.035051
Employer's proportionate share of the net pension liability \$	1,947,494	\$1,833,493
Employer's covered employee payroll \$	70,942	\$67,634
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	2745.19%	2710.90%
Plan fiduciary net position as a percentage of the total pension liability %	57.03%	59.10%
PERS 2		
	2016	2015
Employer's proportion of the net pension liability (asset) %	0.044849	0.043559
Employer's proportionate share of the net pension liability \$	2,258,112	1,556,388
Employer's covered employee payroll \$	4,176,680	3,891,199
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	54.06%	40.00%
Plan fiduciary net position as a percentage of the total pension liability %	85.82%	89.20%
LEOFF 1		
	2016	2015
Employer's proportion of the net pension liability (asset) %	0.013535	0.014061
Employer's proportionate share of the net pension Asset \$	139,449	169,466
Employer's covered employee payroll \$	-	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability %	123.74%	127.36%
LEOFF 2		
	2016	2015
Employer's proportion of the net pension liability (asset) %	0.070376	0.068166
Employer's proportionate share of the net pension asset \$	409,328	700,610
State's proportionate share of the net pension liability (asset) associated with the employer \$	1,615	2,789
Employer's covered employee payroll \$	2,131,986	1,978,447
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	19.20%	35.41%
Plan fiduciary net position as a percentage of the total pension liability %	106.04%	111.67%

City of Cheney, Washington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass-Through Awards	From Direct Awards	Total		
U.S. Department of Agriculture Food and Nutrition Service (via Superintendent of Public instruction)	Child and Adult Care Food Program	10.558	32041367 #PR1601	4,982	-	4,982		
U.S. Department of Agriculture Food and Nutrition Service (via Superintendent of Public instruction)	Child and Adult Care Food Program	10.558	32041367 #PR1602	3,359	-	3,359		
U.S. Department of Agriculture Food and Nutrition Service (via Superintendent of Public instruction)	Child and Adult Care Food Program	10.558	32041367 #PR1603	1,847	-	1,847		
U.S. Department of Agriculture Food and Nutrition Service (via Superintendent of Public instruction)	Child and Adult Care Food Program	10.558	32041367 #PR1604	2,634	-	2,634		
			Total CFDA 10.558:	12,822	-	12,822		
Department of Housing and Urban Development (via C.D.B.G. / County of Spokane)	Community Development Block Grants	14.228	CDBG 15-14 #W15002	10,100	-	10,100		2
Department of Housing and Urban Development (via C.D.B.G. / County of Spokane)	Community Development Block Grants	14.228	CDBG 16-14 #W16001	37,755	-	37,755		2
			Total CFDA 14.228:	47,855	-	47,855		
U.S. Department of Justice - Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	#PD1601	-	1,929	1,929		2
Highway Planning & Construction Cluster								
U.S. Department of Transportation Federal Highway Administration (FHWA) (via WA State Dept of Transportation)	Highway Planning & Construction	20.205	STPUS-7681(002) LA-8695, #A15001	295,499	-	295,499		2
U.S. Department of Transportation Federal Highway Administration (FHWA) (via WA State Dept of Transportation)	Highway Planning & Construction	20.205	TAP-7681(001) LA-8694, #A15002	172	-	172		2
U.S. Department of Transportation Federal Highway Administration (FHWA) (via WA State Dept of Transportation)	Highway Planning & Construction	20.205	STPUS-7681(003) LA-8846, #A16001	386,537	-	386,537		2
			Total Highway Planning & Construction Cluster:	682,208	-	682,208		
Environmental Protection Agency (EPA) Office of Water (via WA State Dept of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2017-Cheney-00214 #WW1601	90,888	-	90,888		
U.S. Department of Education Office of Elementary and Secondary Education (via Superintendent of Public Instruction)	Twenty-First Century Community Learning Centers	84.287	#PR1201 Summit Program	16,051	-	16,051		
U.S. Department of Education Office of Elementary and Secondary Education (via Superintendent of Public Instruction)	Twenty-First Century Community Learning Centers	84.287	#PR1413 Trailblazers Program	8,195	-	8,195		
			Total CFDA 84.287:	24,246	-	24,246		
Department of Home Security - FEMA (via WA State Military Department)	Disaster Grants - Public Assistance	97.036	#MY1502	104,944	-	104,944		4
			Total Federal Awards Expended:	962,963	1,929	964,892		

The accompanying notes are an integral part of this schedule.

City of Cheney, Washington

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Cheney's financial statements. The City of Cheney uses the modified accrual basis of accounting.

Note 2 - Program Costs

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

Note 3 - Indirect Cost Rate

The City of Cheney has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 - FEMA Disaster Assistance

The City of Cheney received \$104,944 from FEMA in 2016 for windstorm damage that occurred in 2015.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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