



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Pullman

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

Published September 17, 2018

Report No. 1022155





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

September 17, 2018

Mayor and City Council
City of Pullman
Pullman, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Pullman'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 Pullman January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Pullman 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 each of its major federal programs.

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction
20.509	Formula Grants for Rural Areas

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$1,284,212.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Pullman
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Pullman
Pullman, 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 Pullman, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 10, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 10, 2018.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

September 10, 2018

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

**City of Pullman
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Pullman
Pullman, Washington

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

We have audited the compliance of the City of Pullman, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 10, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Pullman January 1, 2017 through December 31, 2017

Mayor and City Council
City of Pullman
Pullman, 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 Pullman, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

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 Pullman, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Streets funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 15 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 September 10, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

September 10, 2018

FINANCIAL SECTION

City of Pullman January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

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

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

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

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

Statement of Net Position – Proprietary Funds – 2017

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

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits – LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2017

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Pullman, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2017. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by \$134,139,591 (net position) for the fiscal year reported.
- Total net position are comprised of the following:
 - (1) Net investment in capital assets of \$95,923,267 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$7,395,371 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$30,820,953 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$16,866,738 this year. This compares to the prior year ending fund balance of \$14,616,047, showing an increase of \$2,250,691 during the current year. Unassigned fund balance of \$6,097,563 for fiscal year 2017 shows a \$1,055,124 increase from the prior year unassigned fund balance of \$5,042,439.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,097,563, or 9.9 percent of total General Fund expenditures and 10.2 percent of total General Fund revenues.
- Overall, the City continues to maintain a stable financial position.

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

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The intent of this section of the management's discussion and analysis is to introduce and explain the basic financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States as proclaimed by the GASB principles.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to that used by the private sector.

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

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

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

The government-wide financial statements are presented immediately following this Management Discussion and Analysis (MD&A).

Fund Financial Statements

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

The City has three kinds of funds:

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

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

Budgetary comparison statements are included as "basic financial statements" for the major, general and street funds. These statements demonstrate compliance with the City's adopted and final revised budget.

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

Fiduciary funds include one fund. The City reports this fund only at the fund level since the resources in this fund is not available for City use.

Notes To The Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the City as a Whole

The City implemented the new financial reporting model used in this report beginning with the year ended December 31, 2003. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011.

The City's net position at fiscal year-end are \$134,139,591. The following table provides a summary of the City's net position as of December 31, 2017 and December 31, 2016:

Summary of Net Position

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>		<u>Percentage</u>	
	<u>Activities</u>		<u>Activities</u>				<u>Of Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:								
Current assets	\$17,940,863	\$16,580,356	\$27,451,567	\$25,177,677	\$45,392,430	\$41,758,033	29.2%	28.4%
Restricted assets	3,303,375	3,290,492	10,344	2,840	3,313,719	3,293,332	2.1%	2.2%
Capital assets	38,636,497	37,097,439	65,514,003	63,587,360	104,150,500	100,684,799	66.8%	68.4%
Net pension asset	<u>2,201,167</u>	<u>1,026,232</u>	<u>832,117</u>	<u>376,810</u>	<u>3,033,284</u>	<u>1,403,042</u>	<u>1.9%</u>	<u>1.0%</u>
Total assets	<u>62,081,902</u>	<u>57,994,519</u>	<u>93,808,031</u>	<u>89,144,687</u>	<u>155,889,933</u>	<u>147,139,206</u>	<u>100.0%</u>	<u>100.0%</u>
Deferred outflows of resources								
	<u>1,118,429</u>	<u>1,589,145</u>	<u>423,806</u>	<u>584,788</u>	<u>1,542,235</u>	<u>2,173,933</u>	<u>100.0%</u>	<u>100.0%</u>
Liabilities:								
Current liabilities	2,486,848	3,058,512	1,872,960	1,963,438	4,359,808	5,021,650	20.4%	20.9%
Long-term liabilities	3,136,841	2,816,620	7,284,032	8,278,163	10,420,873	11,094,783	48.7%	46.1%
Net pension liability	<u>4,799,828</u>	<u>5,804,911</u>	<u>1,818,799</u>	<u>2,136,144</u>	<u>6,618,627</u>	<u>7,941,055</u>	<u>30.9%</u>	<u>33.0%</u>
Total liabilities	<u>10,423,517</u>	<u>11,680,043</u>	<u>10,975,791</u>	<u>12,377,745</u>	<u>21,399,308</u>	<u>24,057,788</u>	<u>100.0%</u>	<u>100.0%</u>
Deferred inflows of resources								
	<u>1,372,999</u>	<u>208,832</u>	<u>520,720</u>	<u>76,848</u>	<u>1,893,719</u>	<u>285,680</u>	<u>100.0%</u>	<u>100.0%</u>
Net position:								
Net investment in								
capital assets	38,502,054	36,651,724	57,421,213	54,493,142	95,923,267	91,144,866	71.5%	72.9%
Restricted	7,190,371	6,862,651	205,000	710,000	7,395,371	7,572,651	5.5%	6.1%
Unrestricted	<u>5,711,390</u>	<u>4,180,414</u>	<u>25,109,563</u>	<u>22,071,740</u>	<u>30,820,953</u>	<u>26,252,154</u>	<u>23.0%</u>	<u>21.0%</u>
Total net position	<u>51,403,815</u>	<u>47,694,789</u>	<u>82,735,776</u>	<u>77,274,882</u>	<u>134,139,591</u>	<u>124,969,671</u>	<u>100.0%</u>	<u>100.0%</u>

The City continues to maintain an acceptable current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 7.2 to 1 and 14.7 to 1 for business-type activities. For the City overall, the current ratio is 10.4 to 1. We consider these ratios within an acceptable range.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$3,709,026 for governmental activities and increased by \$5,460,894 for business-type activities. The City's overall financial position improved during fiscal year 2017.

Note that approximately 75.2 percent of the governmental activities' net position are tied up in capital. Also, note that the City began capitalizing their total infrastructure December 31, 2007. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent approximately 79.2 percent of its net position on capital. Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 77.6 percent of the City's total net position.

The following table provides a summary of the City's changes in net position as of December 31, 2017 and December 31, 2016:

Summary of Changes in Net Position

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>		<u>Percentage</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:								
Program:								
Charges for services	\$4,075,114	\$3,949,652	\$16,643,999	\$16,084,567	\$20,719,113	\$20,034,219	23.6%	45.6%
Operating Grants	2,054,126	2,754,118	996,186	1,253,019	3,050,312	4,007,137	3.5%	9.1%
Capital Grants	41,420,258	161,818	2,151,326	764,320	43,571,584	926,138	49.7%	2.1%
General:								
Taxes	19,942,129	18,667,981	-	-	19,942,129	18,667,981	22.7%	42.4%
Interest	269,234	147,934	69,121	40,364	338,355	188,298	0.4%	0.4%
Other revenues	<u>68,048</u>	<u>102,227</u>	<u>1,000</u>	<u>68,859</u>	<u>69,048</u>	<u>171,086</u>	<u>0.1%</u>	<u>0.4%</u>
Total revenues	<u>67,828,909</u>	<u>25,783,730</u>	<u>19,861,632</u>	<u>18,211,129</u>	<u>87,690,541</u>	<u>43,994,859</u>	<u>100.0%</u>	<u>100.0%</u>
Program expenses:								
Gen Gov't Services	1,757,233	2,260,246	-	-	1,757,233	2,260,246	2.2%	6.0%
Public Safety	14,273,669	14,503,491	-	-	14,273,669	14,503,491	18.1%	38.2%
Highways and Streets	1,594,926	1,171,492	-	-	1,594,926	1,171,492	2.0%	3.1%
Culture & Recreation	7,235,379	5,674,287	-	-	7,235,379	5,674,287	9.2%	14.9%
Transportation	39,456,034	-	-	-	39,456,034	-	50.1%	14.9%
Int & Other Debt Service Costs	62,233	72,807	-	-	62,233	72,807	0.1%	0.2%
Utilities	-	-	9,788,683	9,713,855	9,788,683	9,713,855	12.4%	25.6%
Other business types	<u>-</u>	<u>-</u>	<u>4,612,055</u>	<u>4,572,292</u>	<u>4,612,055</u>	<u>4,572,292</u>	<u>5.9%</u>	<u>12.0%</u>
Total expenses	<u>64,379,474</u>	<u>23,682,323</u>	<u>14,400,738</u>	<u>14,286,147</u>	<u>78,780,212</u>	<u>37,968,470</u>	<u>100.0%</u>	<u>100.0%</u>
Excess revenues	3,449,435	2,101,407	5,460,894	3,924,982	8,910,329	6,026,389		
Transfers	-	-	-	-	-	-		
Prior period adjustments	259,591	-	-	-	259,591	-		
Cumulative effect of a change in accounting principles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Change in net position	3,709,026	2,101,407	5,460,894	3,924,982	9,169,920	6,026,389		
Beginning net position	<u>47,694,789</u>	<u>45,593,382</u>	<u>77,274,882</u>	<u>73,349,900</u>	<u>124,969,671</u>	<u>118,943,282</u>		
Ending net position	<u>\$51,403,815</u>	<u>\$47,694,789</u>	<u>\$82,735,776</u>	<u>\$77,274,882</u>	<u>\$134,139,591</u>	<u>\$124,969,671</u>		

GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations. Property taxes provided 11.2 percent of the revenues for governmental activities. Sales taxes provided 7.8 percent of these revenues and utility taxes total 5.8 percent. Charges for services totaled 6.0 percent of these revenues. Note that program revenues cover approximately 73.9 percent of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 26.1 percent of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety costs comprise 22.2 percent of the City's total governmental expenses. Culture & Recreation expenses are 11.2 percent of total governmental expenses. Highways and Streets costs make up 2.5 percent of the total governmental expenses. Transportation costs comprise 61.3 percent of the City's total governmental expenses. The general government services expenses are 2.7 percent of governmental expenses.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial obligation that was placed on the City's taxpayers by each of these functions.

Governmental Activities

	<u>Total Cost Of Services</u>		<u>Net Cost Of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gen Gov't Services	\$1,757,233	\$2,260,246	\$(629,732)	\$(1,155,558)
Public Safety	14,273,669	14,503,491	(12,051,009)	(11,718,183)
Highways and Streets	1,594,926	1,171,492	1,587,592	363,672
Culture & Recreation	7,235,379	5,674,287	(5,674,594)	(4,233,859)
Transportation	39,456,034	-	-	(4,233,859)
Int & Other Debt Service Costs	<u>62,233</u>	<u>72,807</u>	<u>(62,233)</u>	<u>(72,807)</u>
Total	<u>\$64,379,474</u>	<u>\$23,682,323</u>	<u>\$(16,829,976)</u>	<u>\$(16,816,735)</u>

Program revenues covered the program expenses for only one function, interest on long-term debt.

BUSINESS-TYPE ACTIVITIES Revenues vs. Costs

For all enterprise funds, the City reports a current ratio of 14.7 to 1, which is a healthy ratio. The business-type activities report capitalized assets of \$65.5 million, which provide a variety of services to the citizens of Pullman.

The business-type activities report \$25.1 million in unrestricted net position, which provides these funds with adequate resources to maintain service levels without substantial increases in their revenue streams.

The operating revenues for both of the City's enterprise funds increased \$538,315 or 3.7 percent more than 2016, with operating expenses \$71,264 or 0.5 percent more than 2016. Within the total business-type activities of the City, these enterprise funds reported \$1,123,395 operating income compared to operating income of \$656,347 for the prior year. A detailed discussion of the major enterprise funds is presented in a separate section below.

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately \$16.9 million. Of this year-end total, \$6.1 million is unassigned indicating an increasing availability for continuing City service requirements. Legally restricted fund balances, are captured under other governmental funds, include \$2,526,826 for special revenue funds, \$55 for the Lawson Gardens Expendable Trust, \$276,847 for the Cemetery Perpetual Care Fund, \$1,000 for the Cemetery Expansion Fund, and \$2,864 for the Bond Fund. Legally nonspendable fund balances reported under other governmental funds include \$3,014,890 for the Lawson Gardens permanent endowment fund.

The total ending fund balances of governmental funds show an increase of \$2,250,691 or 15.4 percent above the prior year. This increase is primarily the result of the events and programs described within the analysis of the City's governmental activities.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by \$1,538,299. In the prior year, the fund balance increased by \$824,567. Unassigned fund balance as a percentage of expenditures was 30.0 percent of operations or three months of operations. The unassigned fund balance is in a better position to protect the fund against unforeseen emergencies or downturns in the economy.

Taxes totaling \$19.9 million made up 29.4 percent of total governmental funds revenue in 2017 as compared to 72.4 percent in 2016. The change is due to transportation costs from airport capital grants.

General fund expenditures increased by \$39,265,059 due to \$39,456,034 transportation expenditures from airport capital grants. If you exclude the \$39,456,034 transportation expenditures, then the general fund expenditures decreased \$190,975 or approximately 0.9 percent, primarily due to general government, but the general fund actual expenditures are \$1,368,483 less than budget. If you exclude the \$39,456,034 transportation expenditures, then the public safety made up 66.0 percent of total expenditure and the streets fund ended the year with an increase in fund balance of \$393,758. The net fund balance in the equipment rental, government buildings, and the information systems funds were \$7,543,724, \$451,122 and \$642,834, respectively.

The Proprietary Funds

The City reports two primary enterprise funds, of which both are considered major funds. One fund provides the utility services of water, sewer, and stormwater and the other provides transit services to the citizens of Pullman. The City also maintains three internal service funds.

The Water, Sewer, and Stormwater Systems - The water, sewer, and stormwater systems report net position of \$73.4 million, with \$50.4 million or 68.7 percent invested in capital assets. The current ratio for this fund is 14.7 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water, sewer, and stormwater systems reported operating income of \$3,390,349 with a total increase in net position of approximately \$4,206,754 after capital contributions and transfers in from other funds. The operating income amount is more favorable than the operating income of \$3,039,699 in 2016. The change in net position amount is more favorable than the change in net position of \$4,141,708 in 2016.

The Transit System - The transit system reports net position of \$7.7 million, with \$7.0 million or 90.9 percent invested in capital assets. The current ratio for this fund is 6.9 to 1 which provides this fund with adequate resources to cover cash flow issues.

The transit system reported operating loss of \$2,266,954 with a total increase in net position of approximately \$1,263,802 after capital contributions and transfers in from other funds. The operating income amount is more favorable than the loss of \$2,383,352 in 2016. The change in net position amount is more favorable than the decrease in net position of \$281,345 in 2016.

Budgetary Highlights

The General Fund - The General Fund's original revenue budget was less than the 2017 actual results and the original expenditure budget was less than the 2017 actual results, but without the transportation expenditures the original expenditure budget was more than the 2017 actual results. The City Council amended the expenditure budgets during 2017, which resulted in a 0.3 percent net change between the original and final budgets. In total, actual revenues were more than the final budget by \$40,750,677 or about 197.0 percent above budget due to including \$39,456,034 in airport capital grant revenue. If the \$39,456,034 intergovernmental revenues is excluded, then the actual revenues, in total, were more than the final budget by \$1,294,643 or about 6.3 percent above budget. The primary changes in the revenue budgets are related to taxes and building permits. The total actual expenditures were more than the final budget by \$38,087,551 or about 175.6 percent below budget. If the \$39,456,034 transportation expenditure is excluded, then the total actual expenditures were less than the final budget by \$1,368,483 or about 6.3 percent below budget. The primary changes to the expenditure budgets were salary and benefit costs savings due to vacancies that occurred over the year.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts is the intergovernmental revenue from airport capital grants, then other differences relate to sales taxes and utility taxes. The difference in sales taxes relates to an increase in sales taxable building construction projects over expectations. The difference in utility taxes relates to increase in electricity/gas tax.

On the expenditure side of the budget, the largest favorable variances between the final budget and the actual amounts is the transportation expenditure from airport capital grant costs, then other differences are in cultural and recreational and police. The actual amounts expended by cultural and recreational were less than the final budget by \$594,309 or a 10.8 percent difference. The police function was less than the final budget by \$427,494 or a 6.0 percent difference.

The City staff considers the annual budget to be an extremely important document and attempts to include in the budget, their best estimate of revenue and expenditures.

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2017, was \$38.6 million and \$65.5 million, respectively. The total change in net investment was a 4.2 percent increase for governmental and a 3.0 percent increase for business-type activities. The overall increase was 3.5 percent for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year. The following table provides a summary of capital asset activity:

	Capital Assets							
	(Amounts Presented in \$1,000's)							
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
2017	2016	2017	2016	2017	2016	2017	2016	
Non-depreciable assets:								
Land	\$1,320	\$1,320	\$997	\$997	\$2,317	\$2,317	1.3%	1.5%
Construction in progress	<u>3,116</u>	<u>3,054</u>	<u>3,315</u>	<u>2,127</u>	<u>6,431</u>	<u>5,181</u>	<u>3.9%</u>	<u>3.2%</u>
Total non-depreciable	<u>4,436</u>	<u>4,374</u>	<u>4,312</u>	<u>3,124</u>	<u>8,748</u>	<u>7,498</u>	<u>5.2%</u>	<u>4.7%</u>
Depreciable assets:								
Plant in service	-	-	97,344	94,039	97,344	94,039	58.4%	59.3%
Buildings	6,918	6,901	-	-	6,918	6,901	4.2%	4.4%
Other improvements	6,984	5,841	-	-	6,984	5,841	4.2%	3.7%
Machinery and equipment	11,728	10,823	-	-	11,728	10,823	7.0%	6.8%
Infrastructure	<u>34,933</u>	<u>33,499</u>	-	-	<u>34,933</u>	<u>33,499</u>	<u>21.0%</u>	<u>21.1%</u>
Total depreciable assets	<u>60,563</u>	<u>57,064</u>	<u>97,344</u>	<u>94,039</u>	<u>157,907</u>	<u>151,103</u>	<u>94.8%</u>	<u>95.3%</u>
Total cost of capital assets	64,999	61,438	101,656	97,163	166,655	158,601	<u>100.0%</u>	<u>100.0%</u>
Accumulated depreciation	<u>26,362</u>	<u>24,341</u>	<u>36,142</u>	<u>33,576</u>	<u>62,504</u>	<u>57,917</u>		
Book value - capital assets	<u>\$38,637</u>	<u>\$37,097</u>	<u>\$65,514</u>	<u>\$63,587</u>	<u>\$104,151</u>	<u>\$100,684</u>		
Percentage depreciated	<u>40.6%</u>	<u>39.6%</u>	<u>35.6%</u>	<u>34.6%</u>	<u>37.5%</u>	<u>36.5%</u>		

At December 31, 2017, the depreciable capital assets for governmental activities were 40.6 percent depreciated compared to 39.6 percent at December 31, 2016. These percentages provide an indicator that the City is maintaining and replacing their assets at a slightly unfavorable rate.

With the City's business type activities, 35.6 percent of the asset values were depreciated at December 31, 2017 compared to 34.6 percent at December 31, 2016. These percentages provide an indicator that the City is maintaining and replacing their assets at a slightly favorable rate.

Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of \$8.2 million. Of this amount, revenue bonds amounting to \$2,887,000 or 35.1 percent. The other major components are \$5,205,000 supported by pledged revenues generated primarily by the business-type activities of the City (Department of Ecology Water Pollution Control Revolving Fund Loan).

During the year, the City retired \$1,312,700 or 13.8 percent of the beginning outstanding borrowed debt balance and did not add any long-term debt borrowing for a net decrease of \$1,312,700.

Outstanding Borrowings
(in \$1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2017	2016	2017	2016	2017	2016	
General obligation bonds	\$ -	\$270	\$ -	\$ -	\$ -	\$270	-100.0%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	-	-	2,887	3,163	2,887	3,163	-8.7%
Capital leases	134	176	-	-	134	176	-23.9%
Bank and other loans	=	=	5,205	5,931	5,205	5,931	-12.2%
Total	\$134	\$446	\$8,092	\$9,094	\$8,226	\$9,540	-13.8%

The debt per capita was approximately \$381.64, which is substantially below the national average.

See Note 10 for additional information about the City's long-term debt.

Economic Conditions Affecting the City

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Since sales taxes are considered an "elastic" revenue stream, tax collections are higher in a flourishing economy and are lower in a depressed economy. The City of Pullman is not considered a retail center, but has experienced higher than average sales tax collections in 2016 and 2017. The City of Pullman's sales tax collections are directly affected by the levels of new construction. Sales tax collections increased 6.6% from 2015 to 2016 due to record high building permit valuation in 2016. Sales tax collections increased 14.4% from 2016 to 2017 due to another record high building permits. Building permit valuations in 2017 declined from 2016, but sales tax is still receiving the benefit of the 2016 construction projects. The City expects a decrease of sales tax collections in 2018 due to high construction volumes in 2017 and the decrease in construction at Washington State University due to the legislation reducing their funding. In 2018, the City of Pullman will be affected from the decrease in building at Washington State University on sales taxable projects and the Pullman School District finished its building construction in 2017. The airport runway realignment project is expected to continue construction, so maintaining the 2017 sales tax affects through 2018. There are other construction projects in 2018. The City of Pullman is expected to continue to face challenges from significant increases to medical insurance premiums and minimum wage increases due to changes in legislation.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Office of Finance, 325 S.E. Paradise Street, Pullman, WA 99163.

City of Pullman
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 15,509,059	\$ 18,356,507	\$ 33,865,566
Investments	2,283,561	2,067,424	4,350,985
Receivables (net of allowance for uncollectibles)	947,808	956,205	1,904,013
Due from other government units	348,610	4,070,033	4,418,643
Internal balances	(1,649,041)	1,649,041	-
Inventories	429,356	329,541	758,897
Prepays	71,510	22,816	94,326
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	304,037	10,344	314,381
Permanently restricted:			
Cash and cash equivalents	990,903	-	990,903
Investments	1,973,825	-	1,973,825
Receivables	34,610	-	34,610
Non-depreciable capital assets:			
Land	1,319,898	996,638	2,316,536
Construction in progress	3,115,556	3,315,140	6,430,696
Depreciable capital assets (net of accumulated depreciation):			
Buildings and system	3,152,286	18,978,021	22,130,307
Improvements other than buildings	4,124,887	27,977,856	32,102,743
Machinery and equipment	3,994,243	14,246,348	18,240,591
Infrastructure	22,929,627	-	22,929,627
Net pension asset	2,201,167	832,117	3,033,284
Total assets	<u>62,081,902</u>	<u>93,808,031</u>	<u>155,889,933</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,118,429	423,806	1,542,235
LIABILITIES			
Accounts payable and other current liabilities	340,649	287,679	628,328
Custodial deposits	588,975	-	588,975
Accrued interest payable	-	45,078	45,078
Accrued wages and benefits	1,273,461	436,134	1,709,595
Unearned revenue	-	34,661	34,661
Liabilities payable from restricted assets	-	43,799	43,799
Net OPEB obligation - due within one year	240,768	-	240,768
Long term debt - due within one year	-	1,025,609	1,025,609
Capital leases - due within one year	42,995	-	42,995
Noncurrent liabilities:			
Compensated absences	734,079	216,851	950,930
Net OPEB obligation - due in more than one year	2,311,314	-	2,311,314
Long term debt - due in more than one year	-	7,067,181	7,067,181
Capital leases	91,448	-	91,448
Net pension liability	4,799,828	1,818,799	6,618,627
Total liabilities	<u>10,423,517</u>	<u>10,975,791</u>	<u>21,399,308</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,372,999	520,270	1,893,269
NET POSITION			
Net investment in capital assets	38,502,054	57,421,213	95,923,267
Restricted for:			
Highways and streets	1,344,437	-	1,344,437
Culture and recreation	2,189,554	-	2,189,554
Public safety	6,386	-	6,386
Debt service	-	205,000	205,000
Perpetual care:			
Nonexpendable	3,291,737	-	3,291,737
Other purposes	358,257	-	358,257
Unrestricted	<u>5,711,390</u>	<u>25,109,563</u>	<u>30,820,953</u>
Total net position	<u>\$ 51,403,815</u>	<u>\$ 82,735,776</u>	<u>\$ 134,139,591</u>

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

City of Pullman
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,757,233	\$ 724,281	\$ 403,220	\$ -	\$ (629,732)	\$ -	\$ (629,732)
Public safety	14,273,669	713,865	1,489,958	18,837	(12,051,009)	-	(12,051,009)
Highways and streets	1,594,926	1,237,131	-	1,945,387	1,587,592	-	1,587,592
Culture and recreation	7,235,379	1,399,837	160,948	-	(5,674,594)	-	(5,674,594)
Transportation	39,456,034	-	-	39,456,034	-	-	-
Interest on long-term debt	62,233	-	-	-	(62,233)	-	(62,233)
Total governmental activities	<u>64,379,474</u>	<u>4,075,114</u>	<u>2,054,126</u>	<u>41,420,258</u>	<u>(16,829,976)</u>	<u>-</u>	<u>(16,829,976)</u>
Business-type activities:							
Utilities	9,788,683	13,037,959	51,384	831,326	-	4,131,986	4,131,986
Transit	4,612,055	3,606,040	944,802	1,320,000	-	1,258,787	1,258,787
Total business-type activities	<u>14,400,738</u>	<u>16,643,999</u>	<u>996,186</u>	<u>2,151,326</u>	<u>-</u>	<u>5,390,773</u>	<u>5,390,773</u>
Total primary government	<u>\$ 78,780,212</u>	<u>\$ 20,719,113</u>	<u>\$ 3,050,312</u>	<u>\$ 43,571,584</u>	<u>(16,829,976)</u>	<u>5,390,773</u>	<u>(11,439,203)</u>
General revenues:							
Property taxes					7,596,155	-	7,596,155
Sales taxes					5,287,261	-	5,287,261
Utility taxes					3,915,281	-	3,915,281
Business taxes					644,496	-	644,496
Motor vehicle fuel taxes					707,105	-	707,105
Excise taxes					608,718	-	608,718
Other taxes					1,183,113	-	1,183,113
Unrestricted investment earnings					269,234	69,121	338,355
Other revenues					68,048	1,000	69,048
Transfers					-	-	-
Total general revenues and transfers					<u>20,279,411</u>	<u>70,121</u>	<u>20,349,532</u>
Change in net position					3,449,435	5,460,894	8,910,329
Prior period adjustment					259,591	-	259,591
Net position - beginning					47,694,789	77,274,882	124,969,671
Net position - ending					<u>\$ 51,403,815</u>	<u>\$ 82,735,776</u>	<u>\$ 134,139,591</u>

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

**City of Pullman
Balance Sheet
Governmental Funds
December 31, 2017**

	General	Streets	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash and cash equivalents	\$ 5,848,691	\$ 4,207,794	\$ 3,839,876	\$ 13,896,361
Cash with fiscal agent	15,000	-	-	15,000
Investments	1,783,561	-	1,973,825	3,757,386
Interest receivable	-	-	34,610	34,610
Receivables (net of allowance for uncollectibles)	359,335	91,145	225	450,705
Taxes receivable	283,814	-	34,004	317,818
Other current receivables	240,063	-	-	240,063
Due from other governmental units	319,326	19,629	9,655	348,610
Prepaid items	19,796	-	-	19,796
Total assets	8,869,586	4,318,568	5,892,195	19,080,349
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	\$ 8,869,586	\$ 4,318,568	\$ 5,892,195	\$ 19,080,349
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 192,081	\$ 33,475	\$ 21,644	247,200
Accrued wages and benefits	1,095,560	43,054	11,778	1,150,392
Custodial accounts	17,584	-	-	17,584
Customer deposits	568,363	3,028	-	571,391
Total liabilities	1,873,588	79,557	33,422	1,986,567
Deferred inflows of resources from property taxes	193,040	-	34,004	227,044
Fund balances:				
Nonspendable	19,796	-	-	19,796
Nonspendable permanent endowment	-	-	3,014,890	3,014,890
Restricted	23,451	1,344,437	2,807,592	4,175,480
Committed	662,148	2,527,816	-	3,189,964
Assigned	-	366,758	2,287	369,045
Unassigned	6,097,563	-	-	6,097,563
Total fund balances	6,802,958	4,239,011	5,824,769	16,866,738
Total liabilities, deferred inflows of resources and fund balances	\$ 8,869,586	\$ 4,318,568	\$ 5,892,195	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	33,279,416
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	6,921,794
Pension costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	(2,546,577)
Long-term assets not available to pay for current period expenditures and therefore are reported as unavailable revenue in the government funds.	227,044
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(3,344,600)
Net position of governmental activities	\$ 51,403,815

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

City of Pullman
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Streets	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 6,817,174	\$ -	\$ 811,528	\$ 7,628,702
Sales	5,287,261	-	-	5,287,261
Utility	2,650,330	1,264,951	-	3,915,281
Business	-	34,326	610,170	644,496
Motor vehicle fuel	-	707,105	-	707,105
Excise	159,444	415,961	33,313	608,718
Other	1,183,113	-	-	1,183,113
Licenses and permits	855,536	495	-	856,031
Intergovernmental	39,973,404	1,945,387	-	41,918,791
Charges for services	4,074,467	103,478	9,007	4,186,952
Fines	70,078	-	-	70,078
Investment earnings	193,110	1,766	62,279	257,155
Contributions and donations	37,135	-	13,995	51,130
Facility rentals	94,841	-	-	94,841
Other miscellaneous revenues	40,529	25,814	-	66,343
Total revenues	<u>61,436,422</u>	<u>4,499,283</u>	<u>1,540,292</u>	<u>67,475,997</u>
EXPENDITURES				
Current:				
General government	2,009,206	-	-	2,009,206
Public safety	13,421,170	-	15,983	13,437,153
Highway and streets	-	2,026,438	-	2,026,438
Culture and recreation	4,893,565	-	951,002	5,844,567
Transportation	39,456,034	-	-	39,456,034
Debt service:				
Principal	-	-	270,000	270,000
Interest	-	-	13,500	13,500
Debt service costs	-	-	126	126
Capital outlay:				
Improvements	-	2,079,087	56,885	2,135,972
Total expenditures	<u>59,779,975</u>	<u>4,105,525</u>	<u>1,307,496</u>	<u>65,192,996</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,656,447</u>	<u>393,758</u>	<u>232,796</u>	<u>2,283,001</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	68,048	-	-	68,048
Transfers in	-	-	88,210	88,210
Transfers out	(137,589)	-	(2,372)	(139,961)
Capital leases	(48,607)	-	-	(48,607)
Total other financing sources and uses	<u>(118,148)</u>	<u>-</u>	<u>85,838</u>	<u>(32,310)</u>
Net change in fund balances	1,538,299	393,758	318,634	2,250,691
Fund balances - beginning	5,264,659	3,845,253	5,506,135	14,616,047
Fund balances - ending	<u>\$ 6,802,958</u>	<u>\$ 4,239,011</u>	<u>\$ 5,824,769</u>	<u>\$ 16,866,738</u>

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

City of Pullman
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended December 31, 2017

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

Net change in fund balances - total governmental funds \$ 2,250,691

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

Capital outlays	2,330,092	
Depreciation	(1,649,467)	
Disposals	<u>(27,913)</u>	652,712

The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net position.

Change in compensated absences payables (39,557)

Revenues earned during the period but not yet available (32,547)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal; of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Repayment of the principal of long term debt	270,000	
Repayment of capital leases	<u>41,272</u>	311,272

Change in net other postemployment benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (308,873)

Change in pension benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 506,146

Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Internal service funds change in net position	99,929	
Change in adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>9,662</u>	<u>109,591</u>

Change in net position of governmental activities \$ 3,449,435

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

City of Pullman
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 6,720,000	\$ 6,720,000	\$ 6,817,174	\$ 97,174
Sales	5,000,000	5,000,000	5,287,261	287,261
Utility	2,333,500	2,333,500	2,650,330	316,830
Excise	160,000	160,000	159,444	(556)
Other	998,000	998,000	1,183,113	185,113
Licenses and permits	545,150	545,150	855,536	310,386
Intergovernmental	447,800	447,800	39,973,404	39,525,604
Charges for services	4,247,495	4,167,495	4,074,467	(93,028)
Fines	52,500	52,500	70,078	17,578
Investment earnings	85,000	85,000	193,110	108,110
Contributions and donations	49,500	49,500	37,135	(12,365)
Facility rentals	85,000	85,000	94,841	9,841
Other miscellaneous revenues	41,800	41,800	40,529	(1,271)
Total revenues	<u>20,765,745</u>	<u>20,685,745</u>	<u>61,436,422</u>	<u>40,750,677</u>
EXPENDITURES				
Current:				
General government:				
Council	192,408	192,408	197,292	(4,884)
Mayor & Supervisor	202,851	202,851	200,200	2,651
Attorney	84,100	84,100	84,000	100
Personnel	120,149	120,149	116,773	3,376
Finance and administration	908,061	908,061	803,857	104,204
Other - unclassified	630,020	660,020	607,084	52,936
Total general government	<u>2,137,589</u>	<u>2,167,589</u>	<u>2,009,206</u>	<u>158,383</u>
Public safety:				
Police	7,132,010	7,132,010	6,704,516	427,494
Fire	6,138,238	6,138,238	5,991,327	146,911
Inspection	731,713	766,713	725,327	41,386
Total public safety	<u>14,001,961</u>	<u>14,036,961</u>	<u>13,421,170</u>	<u>615,791</u>
Culture and recreation	5,407,874	5,487,874	4,893,565	594,309
Transportation	-	-	39,456,034	(39,456,034)
Total expenditures	<u>21,547,424</u>	<u>21,692,424</u>	<u>59,779,975</u>	<u>(38,087,551)</u>
Excess of revenues over expenditures	<u>(781,679)</u>	<u>(1,006,679)</u>	<u>1,656,447</u>	<u>2,663,126</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	-	68,048	68,048
Transfers out	(97,141)	(97,141)	(137,589)	(40,448)
Capital leases	(48,607)	(48,607)	(48,607)	-
Total other financing sources and uses	<u>(145,748)</u>	<u>(145,748)</u>	<u>(118,148)</u>	<u>27,600</u>
Net change in fund balances	<u>(927,427)</u>	<u>(1,152,427)</u>	<u>1,538,299</u>	<u>2,690,726</u>
Fund balances - beginning	5,264,659	5,264,659	5,264,659	-
Fund balances - ending	<u>\$ 4,337,232</u>	<u>\$ 4,112,232</u>	<u>\$ 6,802,958</u>	<u>\$ 2,690,726</u>

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

**City of Pullman
Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Utility	\$ 1,183,500	\$ 1,183,500	\$ 1,264,951	\$ 81,451
Business	43,000	43,000	34,326	(8,674)
Motor vehicle fuel	637,600	637,600	707,105	69,505
Excise	200,000	200,000	415,961	215,961
Licenses and permits	750	750	495	(255)
Intergovernmental	1,317,800	1,817,800	1,945,387	127,587
Charges for services	102,000	102,000	103,478	1,478
Investment earnings	700	700	1,766	1,066
Contributions and donations	60,000	60,000	-	(60,000)
Other miscellaneous revenues	108,280	108,280	25,814	(82,466)
Total revenues	<u>3,653,630</u>	<u>4,153,630</u>	<u>4,499,283</u>	<u>345,653</u>
EXPENDITURES				
Current:				
Highway and streets	1,782,026	2,282,026	2,026,438	255,588
Capital outlay:				
Improvements	2,415,034	2,415,034	2,079,087	335,947
Total expenditures	<u>4,197,060</u>	<u>4,697,060</u>	<u>4,105,525</u>	<u>591,535</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(543,430)</u>	<u>(543,430)</u>	<u>393,758</u>	<u>937,188</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	1,000	1,000	-	(1,000)
Total other financing sources and uses	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Net change in fund balances	<u>(542,430)</u>	<u>(542,430)</u>	<u>393,758</u>	<u>936,188</u>
Fund balances - beginning	<u>3,845,253</u>	<u>3,845,253</u>	<u>3,845,253</u>	<u>-</u>
Fund balances - ending	<u>\$ 3,302,823</u>	<u>\$ 3,302,823</u>	<u>\$ 4,239,011</u>	<u>\$ 936,188</u>

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

**City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2017**

Business-type Activities-Enterprise Funds

	Utility Current Year	Transit Current Year	Totals	Governmental Activities- Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 17,523,992	\$ 832,515	\$ 18,356,507	\$ 2,892,638
Investments	2,067,424	-	2,067,424	-
Interest receivable	30,736	-	30,736	6,067
Accounts receivable	834,323	-	834,323	-
Other current receivable	-	91,146	91,146	-
Intergovernmental receivable	3,460,759	609,274	4,070,033	-
Inventories	329,541	-	329,541	429,356
Prepaid items	16,953	5,863	22,816	51,714
Total current assets	<u>24,263,728</u>	<u>1,538,798</u>	<u>25,802,526</u>	<u>3,379,775</u>
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Customer deposits	10,344	-	10,344	-
Investments	-	-	-	500,000
Total restricted assets	<u>10,344</u>	<u>-</u>	<u>10,344</u>	<u>500,000</u>
Non-depreciable capital assets:				
Land	996,638	-	996,638	-
Construction in progress	3,315,140	-	3,315,140	1,057,062
Depreciable capital assets:				
Buildings and system	24,066,867	2,127,485	26,194,352	1,198,966
Improvements other than buildings	37,814,278	145,165	37,959,443	-
Machinery and equipment	23,430,710	9,759,153	33,189,863	8,104,546
Less accumulated depreciation	(31,138,860)	(5,002,573)	(36,141,433)	(5,003,493)
Total capital assets (net of accumulated depreciation)	<u>58,484,773</u>	<u>7,029,230</u>	<u>65,514,003</u>	<u>5,357,081</u>
Net pension asset	428,171	403,946	832,117	235,585
Total noncurrent assets	<u>58,923,288</u>	<u>7,433,176</u>	<u>66,356,464</u>	<u>6,092,666</u>
Total assets	<u>83,187,016</u>	<u>8,971,974</u>	<u>92,158,990</u>	<u>9,472,441</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	218,072	205,734	423,806	119,986

**City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2017**

Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Utility Current Year	Transit Current Year	Totals	
LIABILITIES				
Current liabilities:				
Accounts payable	277,541	10,138	287,679	93,449
Customer deposits payable	43,799	-	43,799	-
Accrued wages and benefits	224,116	212,018	436,134	123,069
Unearned Revenues	34,661	-	34,661	-
Accrued interest payable	45,078	-	45,078	-
Long term debt - current portion	1,025,609	-	1,025,609	-
Total current liabilities	1,650,804	222,156	1,872,960	216,518
Noncurrent liabilities:				
Long term debt	4,460,659	-	4,460,659	-
Revenue bonds payable (net of unamortized discounts)	2,606,522	-	2,606,522	-
Compensated absences	127,205	89,646	216,851	76,004
Total noncurrent liabilities	7,194,386	89,646	7,284,032	76,004
Net pension liability	935,874	882,925	1,818,799	514,929
Total liabilities	9,781,064	1,194,727	10,975,791	807,451
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	267,708	252,562	520,270	147,296
NET POSITION				
Net investment in capital assets	50,391,983	7,029,230	57,421,213	5,357,081
Restricted for debt service	205,000	-	205,000	-
Unrestricted	22,759,333	701,189	23,460,522	3,280,599
Total net position	\$ 73,356,316	\$ 7,730,419	81,086,735	\$ 8,637,680
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			1,649,041	
Net position of business-type activities			\$ 82,735,776	

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

City of Pullman
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds
	Utility Current Year	Transit Current Year	Totals	
Operating revenues:				
Charges for sales and services				
Water and Sewer sales	\$ 11,118,418	\$ -	\$ 11,118,418	\$ -
Tap fees - unpledged	666,282	-	666,282	-
Transit sales	-	2,341,086	2,341,086	-
Other services	1,122,897	-	1,122,897	4,553,365
Total operating revenues	<u>12,907,597</u>	<u>2,341,086</u>	<u>15,248,683</u>	<u>4,553,365</u>
Operating expenses:				
Costs of sales and services	7,412,240	3,793,719	11,205,959	4,101,187
Administration	-	337,330	337,330	-
Depreciation	2,105,008	476,991	2,581,999	506,237
Total operating expenses	<u>9,517,248</u>	<u>4,608,040</u>	<u>14,125,288</u>	<u>4,607,424</u>
Operating income (loss)	<u>3,390,349</u>	<u>(2,266,954)</u>	<u>1,123,395</u>	<u>(54,059)</u>
Nonoperating revenues (expenses):				
Intergovernmental	51,384	3,529,756	3,581,140	-
Investment earnings	69,121	-	69,121	12,079
Interest expense	(268,714)	-	(268,714)	-
Insurance recoveries	-	1,000	1,000	-
Gain (Loss) on sale of fixed assets	2,926	-	2,926	(627)
Other nonoperating revenues (expenses)	130,362	-	130,362	90,785
Total nonoperating revenue (expenses)	<u>(14,921)</u>	<u>3,530,756</u>	<u>3,515,835</u>	<u>102,237</u>
Income before contributions and transfers	3,375,428	1,263,802	4,639,230	48,178
Capital contributions	831,326	-	831,326	-
Transfers in	-	-	-	51,751
Change in net position	<u>4,206,754</u>	<u>1,263,802</u>	<u>5,470,556</u>	<u>99,929</u>
Total net position - beginning	69,149,562	6,466,617		8,537,751
Total net position - ending	<u>\$ 73,356,316</u>	<u>\$ 7,730,419</u>		<u>\$ 8,637,680</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>(9,662)</u>	
Change in net position of business-type activities			<u>\$ 5,460,894</u>	

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

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

	<u>Business-type Activities-Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 15,023,730	\$ 2,089,164	\$ 17,112,894	
Receipts from interfund services provided	-	-	-	\$ 4,613,849
Payments to suppliers and interfund services	(9,511,482)	(1,504,377)	(11,015,859)	(2,742,545)
Payments to employees	(2,807,548)	(2,714,287)	(5,521,835)	(1,533,578)
Net cash provided (used) by operating activities	<u>2,704,700</u>	<u>(2,129,500)</u>	<u>575,200</u>	<u>337,726</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	-	51,751
Taxes available for operating purposes	-	1,264,954	1,264,954	-
Proceeds from nonoperating	181,746	2,265,802	2,447,548	90,785
Net cash provided (used) by noncapital and related financing activities	<u>181,746</u>	<u>3,530,756</u>	<u>3,712,502</u>	<u>142,536</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(2,360,010)	(1,319,129)	(3,679,139)	(1,394,832)
Principal paid on capital debt	(1,001,428)	-	(1,001,428)	-
Interest paid on capital debt	(268,714)	-	(268,714)	-
Proceeds from sales of capital assets	4,750	-	4,750	1,625
Net cash provided (used) by capital and related financing activities	<u>(3,625,402)</u>	<u>(1,319,129)</u>	<u>(4,944,531)</u>	<u>(1,393,207)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	855,000	-	855,000	-
Purchases of investments	(356,911)	-	(356,911)	-
Premiums and discounts	1,747	-	1,747	-
Interest and dividends received	69,121	-	69,121	12,079
Net cash provided (used) by investing activities	<u>568,957</u>	<u>-</u>	<u>568,957</u>	<u>12,079</u>
Net increase in cash and cash equivalents	<u>(169,999)</u>	<u>82,127</u>	<u>(87,872)</u>	<u>(900,866)</u>
Cash and cash equivalents, January 1	<u>17,704,335</u>	<u>750,388</u>	<u>18,454,723</u>	<u>3,793,504</u>
Cash and cash equivalents, December 31	<u>\$ 17,534,336</u>	<u>\$ 832,515</u>	<u>\$ 18,366,851</u>	<u>\$ 2,892,638</u>

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

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Internal Service Funds
	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 3,390,349	\$ (2,266,954)	\$ 1,123,395	\$ (54,059)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	2,105,008	476,991	2,581,999	506,237
(Increase) decrease in accounts receivable	(6,170)	-	(6,170)	-
(Increase) decrease in current receivable	-	390	390	-
(Increase) decrease in intergovernmental receivable	(2,595,316)	(267,488)	(2,862,804)	-
(Increase) decrease in interest receivable	(20,154)	-	(20,154)	(4,045)
(Increase) decrease in inventories	12,024	-	12,024	(38,519)
(Increase) decrease in prepaid items	(169)	(1,882)	(2,051)	(19,620)
(Increase) decrease in net pension asset	(238,225)	(217,082)	(455,307)	(131,507)
(Increase) decrease in deferred outflows related to pensions	76,713	84,269	160,982	41,537
Increase (decrease) in accounts payable	(125,384)	470	(124,914)	(25,626)
Increase (decrease) in interest payable	(4,084)	-	(4,084)	-
Increase (decrease) in customer deposits	6,874	-	6,874	-
Increase (decrease) in advance revenues	(3,721)	-	(3,721)	-
Increase (decrease) in compensated absences payable	17,566	13,913	31,479	12,551
Increase (decrease) in net pension liability	(140,933)	(176,412)	(317,345)	(75,091)
Increase (decrease) in deferred inflows related to pensions	228,970	214,452	443,422	126,070
Increase (decrease) in accrued wages and benefits	1,352	9,833	11,185	(202)
Total adjustments	(685,649)	137,454	(548,195)	391,785
Net cash provided (used) by operating activities	<u>\$ 2,704,700</u>	<u>\$ (2,129,500)</u>	<u>\$ 575,200</u>	<u>\$ 337,726</u>
NON-CASH ACTIVITIES:				
Assets contributed from developers and customers	\$ 831,326			

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

**City of Pullman
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017**

	Airport Agency Fund
ASSETS	
Cash	\$ 19,534
Receivables	6,770,199
Total assets	6,789,733
DEFERRED OUTFLOWS OF RESOURCES	
	-
LIABILITIES	
Custodial accounts	6,789,733
Total liabilities	6,789,733
DEFERRED INFLOWS OF RESOURCES	
	-
NET POSITION	
Held in trust for pension benefits and other purposes	\$ -

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pullman 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.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* (GASB #34). This Statement provides for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2003 (for Phase 2 governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). As permitted by GASB #34, the City of Pullman delayed the implementation of the infrastructure reporting requirement to the fiscal year ending in 2007. The City implemented the basic model for fiscal year 2003 and has implemented the infrastructure-related portion for the fiscal year ending 2007. The Financial Statements and the Management Discussion and Analysis include the required infrastructure reporting and related adjustments and entries.

The City of Pullman has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011. The City's fund balance classification policies and procedures are as follows:

The Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, donors or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the City of Pullman Council (i.e., a resolution or ordinance), the City's highest level of decision-making authority. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Informal Council action is authorized to assign unexpended funds.

Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report a positive unassigned balance but can report a negative unassigned fund if expenditures incurred for specific purposes exceed the amount restricted or committed to those purposes.

For classification of governmental fund balances, the City considers an expenditure to be made from the most restrictive account resource (i.e., restricted, committed, assigned and unassigned in that order) when more than one fund balance classification is available for use.

A. Reporting Entity

The City of Pullman was incorporated on April 11, 1888, and operates under the laws of the state of Washington applicable to a non-charter code City with a mayor-council form of government. As required by the generally accepted accounting principles, the financial statements present the City of Pullman - the primary government.

The Pullman-Moscow Airport provides airport services to the region surrounding the City of Pullman. This activity is neither directly controlled nor dependent upon the City. It is directed by a board of directors composed of representatives from the City of Pullman, Washington State University, the City of Moscow, Idaho and Latah County, Idaho, and derives some financial support from each of these entities and the Port of Whitman. It is not a separate taxing authority. The interlocal agreement establishing this activity directs the City of Pullman to maintain the financial records and reports as required by the laws of the State of Washington. The combined financial statements therefore also include the Pullman-Moscow Airport Agency fund. The Pullman-Moscow Airport also issues its own separate and distinct financial statements. To obtain these separately issued financial statements contact the City's Office of Finance, 325 S.E. Paradise Street, Pullman, WA 99163.

Blended Component Unit

The elected 7-member council of the City of Pullman serves in an ex-officio capacity as the board of metropolitan park commissioners for the City of Pullman Metropolitan Park District. Although the District is legally separated from the City, the District is reported as if it were part of primary government because its sole purpose is to provide for management, maintenance and improvement of the parks and recreational facilities within the City of Pullman boundaries.

B. 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. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes and state distributed taxes as available if they are collected within 30 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, state distributed taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as current fiscal period revenues. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **Arterial and Street Funds** (presented together as one major fund) are responsible for the maintenance of all city streets, street lighting, and bridges.

The City reports the following non-major governmental funds:

The **Other Governmental Funds** include a permanent endowment fund account for contributions and donations from private sources to be expended for improvements and maintenance of the Lawson Gardens Park.

The City reports the following major proprietary funds:

The **Utility and Utility Capital Projects Funds** account for all revenues derived from and expenses incurred in the operation and construction of the water and stormwater systems. The fund also accounts for all revenue derived from and expenses incurred in the operation and construction of the wastewater treatment plant and the sewer system of the City.

The **Transit Fund** accounts for all revenues derived from and expenses incurred in the operation of the public transit system.

Additionally, the City reports the following fund types:

Internal service funds account for the equipment rental division and information systems management, and government building maintenance provided to other departments of the City on a cost reimbursement basis.

Fiduciary funds include the Pullman-Moscow Airport Agency fund.

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

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

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

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

D. Budgets and Budgetary Accounting

1. Scope of Budget

Annual appropriated budgets are adopted for all governmental fund types and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers broken down by department for all budgeted funds, but the financial statements include budgetary comparisons for only the two major Governmental Funds: General and Arterial/Streets. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the fund level broken down by department, except in the General Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual department functions and activities by object class.

Appropriations for general and special revenue funds lapse at year-end.

2. Procedures for Adopting the Original Budget

The City's budget procedures are mandated by RCW 35A.33. The steps in the budget process are as follows:

- a. Prior to November 2 the mayor submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by City departments during preceding months and balanced with revenue estimates made by the Finance Director.
- b. The council conducts public hearings on the proposed budget in November and December.
- c. The council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.

3. Amending the Budget

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

When the city council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund broken down by department it may do so by ordinance approved by one more than the majority after holding a public hearing.

The budget amounts shown in the financial statements are the original and 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, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

4. Excess of Expenditures Over Appropriations

The 2017 General Fund had \$38,127,999 worth of expenditures in excess of appropriations. These expenditures were funded by 2017 revenue. There is \$39,456,034 in transportation expenditures and intergovernmental revenue from grants.

The 2017 Cemetery Care Fund had \$1,872 worth of expenditures in excess of appropriations. The 2017 Water/Sewer Revenue Bond Fund had \$502,800 worth of expenditures in excess of appropriations. These expenditures were funded by 2017 revenue.

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. On December 31, 2017, the finance director was holding \$22,048,729 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund.

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

2. Temporary Investments (See Note 4)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered. (See Note 1-C).

4. Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 15.

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

5. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary. Inventories in governmental funds are valued at cost.

Inventories in proprietary funds are valued by the LIFO method.

7. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable in enterprise funds. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements, if any, are described in Note 10.

The restricted assets of the Governmental funds composed of the following:

Cash and Investments – Temporary Restrictions	\$ 304,037
Cash, Investments and Receivable – Permanent Restriction	2,999,338
Total Restricted Assets	\$ 3,303,375

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

Cash and Investments – Customer Deposits	\$ 10,344
Total Restricted Assets	<u>\$ 10,344</u>

8. Capital Assets (See Note 6)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Pursuant to GASB Statement No. 34, an extended period of deferral (FY 2007 for Phase 2 governments) was available for the requirement to record and depreciate infrastructure assets acquired before the implementation date. The City fully met this requirement during fiscal year 2007. Significant adjustments have occurred relating to this requirement. This category has become the largest asset class of the City and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, traffic signals, sidewalks, etc.

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

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

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

	Years
Buildings and Improvements	10-60
Infrastructure	40
Light/Heavy Trans. Equip.	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

Property, plant and equipment assets within the governmental activity funds except the equipment rental division fund are depreciated for a full year regardless of the month the asset was put in service. Property, plant and equipment assets within the business-type activity funds and the equipment rental division fund are depreciated partial years depending on the month the asset was put in service.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

9. Custodial Accounts

This account reflects the liability for net monetary assets being held by the City in its trustee or agency capacity.

10. 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, proprietary, and fiduciary fund financial statements. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 800 hours. Outstanding sick leave is not payable upon resignation, retirement or death.

11. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

12. Long-term Debt (See Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

13. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. (See Note 1-C)

14. Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

15. Pensions

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

F. **Other**

1. Stabilization Arrangements

The City established one stabilization arrangement. The debt service reserve account balance at December 31, 2017 is \$205,000. The total \$205,000 is disclosed as restricted debt service on the Statement of Net Position.

The stabilization arrangement was approved by Council Ordinance number 09-20 establishing the debt service reserve account. The debt service reserve account is maintained for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

2. Budgeting, Accounting and Reporting System (BARS)

The State of Washington's Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS) manual. The purpose of this manual is to provide uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington.

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 a reconciliation between fund balance – total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. The reconciliation is as follows:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	\$1,319,898	
Buildings and systems	5,718,798	
Improvements other than buildings	6,984,346	
Machinery and equipment	3,623,983	
Infrastructure	34,932,593	
Construction in progress	2,058,494	
Accumulated depreciation	(21,358,696)	\$33,279,416
Internal service funds are used by management to charge the costs of fleet management and management of information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
Internal service funds total net position	\$8,637,680	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(1,649,041)	
Allowance for doubtful accounts	(66,845)	\$6,921,794
Pension costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Net pension asset	\$2,201,167	
Deferred outflows related to pensions	1,118,429	
Net pension liability	(4,799,828)	
Deferred inflows related to pensions	(1,372,999)	
Internal service funds pension cost	306,654	\$(2,546,577)
Long-term assets not available to pay for current period expenditures and therefore are reported as unavailable revenue in the government funds.		
Unearned revenue beyond the city's 30-day measurable and available period		\$227,044

Long term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Compensated absences	\$(658,075)	
Other employment benefits payable	(2,552,082)	
Capital leases	(134,443)	\$(3,344,600)

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 fund statement of revenues, expenditures, and changes in fund balances includes a 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 - DEPOSITS AND INVESTMENTS

DEPOSITS

Cash on hand at December 31, 2017 was \$23,111,899. The carrying amount of the City's deposits, including certificates of deposit, was \$23,111,899 and the bank balance was \$23,460,141.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$35,170,850 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

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

INVESTMENTS

As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All investments are stated at cost plus accrued interest which approximates fair value, as it is the intent of the City to hold all investments until their stated maturities. Also, the interest earned on investments owned by the Cemetery Care Fund is credited to the General Fund, as the operation and maintenance expenditures of the City's cemeteries are included in the General Fund or the Cemetery Expansion Fund for cemetery capital improvements. Other property is shown on the combined balance sheet at cost.

	Fair Value	
	City Owned	
	<u>Investments</u>	<u>Total</u>
U.S. Government Securities	\$4,824,457	\$4,824,457
Municipal Bonds	1,283,561	1,283,561
State Investment Pool	<u>216,792</u>	<u>216,792</u>
TOTAL	<u>\$6,324,810</u>	<u>\$6,324,810</u>

During the period covered by this financial statement, there were no exceptions to the City's investment policy, nor did the City use reverse repurchase agreements. During this period, the City did not use, hold nor sell any derivatives or similar instruments, nor did the City participate in any securities lending transactions. There were no sales of securities at other than maturity or call dates that resulted in realized gains or losses.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$6,324,810 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

Investments in Local Government Investment Pool (LGIP)

The city is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The Washington State Constitution and Washington State law in RCW 84.55.010 limit the levy rate.

For 2017 the City levied the following property taxes on an assessed value of \$1,754,142,330 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

<u>Purpose of Levy</u>	<u>Levy Rate</u>	<u>Total</u>
	<u>per \$1,000</u>	<u>Levy Amount</u>
General Government	\$ 3.3983	\$5,961,093
EMS Levy	0.4721	828,136
Special G.O. Bond Levy	<u>0.1623</u>	<u>284,000</u>
TOTALS	<u>\$ 4.0327</u>	<u>\$7,073,229</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets as of December 31, 2017 follows:

	<u>Balance</u> <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$1,319,898	\$ -	\$ -	\$1,319,898
Construction In Progress	<u>3,054,368</u>	<u>3,724,927</u>	<u>3,663,739</u>	<u>3,115,556</u>
Total Capital Assets, Not Being Depreciated:	<u>4,374,266</u>	<u>3,724,927</u>	<u>3,663,739</u>	<u>4,435,454</u>
Capital Assets, Being Depreciated:				
Buildings	6,901,452	16,312	-	6,917,764
Other Improvements	5,841,025	1,143,321	-	6,984,346
Machinery and Equipment	10,823,006	1,070,355	164,833	11,728,528
Infrastructure	<u>33,498,842</u>	<u>1,433,751</u>	-	<u>34,932,593</u>
Total Capital Assets, Being Depreciated:	<u>57,064,325</u>	<u>3,663,739</u>	<u>164,833</u>	<u>60,563,231</u>
Less Accumulated Depreciation For:				
Buildings	(3,614,672)	(150,806)	-	(3,765,478)
Other Improvements	(2,643,317)	(216,142)	-	(2,859,459)
Machinery and Equipment	(6,972,724)	(896,229)	(134,668)	(7,734,285)
Infrastructure	<u>(11,110,439)</u>	<u>(892,527)</u>	-	<u>(12,002,966)</u>
Total Accumulated Depreciation	<u>(24,341,152)</u>	<u>(2,155,704)</u>	<u>(134,668)</u>	<u>(26,362,188)</u>
Total Capital Assets, Being Depreciated, Net:	<u>32,723,173</u>	<u>1,508,035</u>	<u>30,165</u>	<u>34,201,043</u>
Governmental Activities Capital Assets, Net:	<u>\$37,097,439</u>	<u>\$5,232,962</u>	<u>\$3,693,904</u>	<u>\$38,636,497</u>

	<u>Balance</u> <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$996,638	\$ -	\$ -	\$996,638
Construction In Progress	<u>2,127,316</u>	<u>4,510,466</u>	<u>3,322,642</u>	<u>3,315,140</u>
Total Capital Assets, Not Being Depreciated:	<u>3,123,954</u>	<u>4,510,466</u>	<u>3,322,642</u>	<u>4,311,778</u>
Capital Assets, Being Depreciated:				
Plant in Service **	<u>94,039,253</u>	<u>3,322,642</u>	<u>18,237</u>	<u>97,343,658</u>
Total Capital Assets, Being Depreciated:	<u>94,039,253</u>	<u>3,322,642</u>	<u>18,237</u>	<u>97,343,658</u>
Less Accumulated Depreciation For:				
Plant in Service **	<u>(33,575,847)</u>	<u>(2,581,999)</u>	<u>(16,413)</u>	<u>(36,141,433)</u>
Total Accumulated Depreciation	<u>(33,575,847)</u>	<u>(2,581,999)</u>	<u>(16,413)</u>	<u>(36,141,433)</u>
Total Capital Assets, Being Depreciated, Net:	<u>60,463,406</u>	<u>740,643</u>	<u>1,824</u>	<u>61,202,225</u>
Business-Type Activities Capital Assets, Net:	<u>\$63,587,360</u>	<u>\$5,251,109</u>	<u>\$3,324,466</u>	<u>\$65,514,003</u>
Governmental Activities:				
General Government		653,377		
Safety		388,054		
Transportation		897,974		
Culture and Recreation		<u>216,299</u>		
Total Depreciation – Governmental Activities		<u>\$2,155,704</u>		
Business-Type Activities:				
Water and Sewer		\$2,056,594		
Stormwater		48,414		
Transit		<u>476,991</u>		
Total Depreciation – Business-Type Activities		<u>\$2,581,999</u>		

****The caption, Plant in Service, consists of Buildings and system, Improvements other than buildings and Machinery and equipment.**

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$6,618,627
Pension assets	\$3,033,284
Deferred outflows of resources	\$1,542,235
Deferred inflows of resources	\$1,893,269
Pension expense/expenditures	\$866,603

State Sponsored Pension Plans

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

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

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

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

A. Public Employees' Retirement System (PERS)

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

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

adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor

benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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

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

The City's actual PERS plan contributions were \$467,466 to PERS Plan 1 and \$615,033 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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

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

20+ years of service – 2.0% of FAS

10-19 years of service – 1.5% of FAS

5-9 years of service – 1% of FAS

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

Contributions

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

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

Contributions

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

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
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%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.59%	8.75%

The City’s actual contributions without administration fee to the plan were \$311,866 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$191,211.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience* and the *2015 Economic Experience Study*.

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

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all systems, except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, OSA reviewed the

historical experience data, considered the historical conditions that produced past annual investment return, and considered Capital Market Assumptions and simulated expected investment returns the WSIB provided. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Dis- count Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$4,303,921	\$3,533,043	\$2,865,297
PERS 2/3	\$8,312,887	\$3,085,584	\$(1,197,414)
LEOFF 1	\$(325,449)	\$(438,750)	\$(536,049)
LEOFF 2	\$560,328	\$(2,589,334)	\$(5,155,547)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City reported a total pension liability of \$6,618,627 and a total pension asset of \$3,028,084 for a net total of \$3,590,543 for its proportionate share of the net pension liabilities or (assets) as follows:

	Liability (or Asset)
PERS 1	\$3,533,043
PERS 2/3	\$3,085,584
LEOFF 1	\$(438,750)
LEOFF 2	\$(2,589,334)

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

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's proportionate share	\$(438,750)	\$(2,589,334)
State's proportionate share of the net pension liability/(asset) associated with the employer	\$ -	\$(191,211)
TOTAL	<u>\$(438,750)</u>	<u>\$(2,780,545)</u>

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.0709%	0.0745%	4.9873%
PERS 2/3	0.0835%	0.0905%	8.4131%
LEOFF 1	0.0271%	0.0289%	6.6416%
LEOFF 2	0.1928%	0.1866%	-3.2199%

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

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

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

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

Pension Expense

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

	Pension Expense
PERS 1	\$399,928
PERS 2/3	\$496,011
LEOFF 1	\$(90,198)
LEOFF 2	\$63,803
VFFRPF	<u>\$(2,941)</u>
TOTAL	<u>\$866,603</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(131,843)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	<u>\$236,964</u>	<u>\$ -</u>
TOTAL	<u>\$236,964</u>	<u>\$(131,843)</u>

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$312,642	\$(101,480)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(822,543)
Changes of assumptions	\$32,775	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$309,771	\$(7,683)
Contributions subsequent to the measurement date	<u>\$321,944</u>	<u>\$ -</u>
TOTAL	<u>\$977,132</u>	<u>\$(931,706)</u>

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(40,770)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	<u>\$ -</u>	<u>\$ -</u>
TOTAL	<u>\$ -</u>	<u>\$(40,770)</u>

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$113,806	\$(98,192)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(581,324)
Changes of assumptions	\$3,118	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$49,056	\$(109,435)
Contributions subsequent to the measurement date	<u>\$162,158</u>	<u>\$ -</u>
TOTAL	<u>\$328,138</u>	<u>\$(788,951)</u>

Deferred outflows of resources related to pensions resulting from the City'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:

Year ended December 31:	PERS 1
2018	\$(89,118)
2019	\$28,136)
2020	\$(6,533)
2021	\$(64,329)
2022	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2/3
2018	\$(250,120)
2019	\$141,102
2020	\$(24,229)
2021	\$(287,625)
2022	\$66,384
Thereafter	\$86,803

Year ended December 31:	LEOFF 1
2018	\$(25,587)
2019	\$6,901
2020	\$(2,756)
2021	\$(19,329)
2022	\$ -
Thereafter	\$ -

Year ended December 31:	LEOFF 2
2018	\$(292,169)
2019	\$35,373
2020	\$(65,008)
2021	\$(272,500)
2022	\$(5,119)
Thereafter	\$(23,548)

C. Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 500 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. For the year ended December 31, 2017, the City recognized fire insurance premium tax of \$33,313. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2017 were as follows:

VFFRPF		
	Firefighters	EMSD and Reserve Officers
Municipality fee	\$30	\$105
Member fee	\$30	\$30

The City's actual contributions to the plan were \$30 for the year ended December 31, 2017.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2017, the fire insurance premium tax contribution was \$6.6 million.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation: 2.75%
 Salary increases: N/A

Investment rate of return: 7.0%

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 2016 valuation report.

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 their lifetime.

Discount Rate

The discount rate used to measure the total VFFRPF pension asset was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of Net Pension Asset

The following presents the City's proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7 percent, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

	1% Decrease (6.0%)	Current Dis- count Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$859	\$(5,200)	\$(5,716)

Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan's fiduciary net position is available in the separately issued State of Washington CAFR.

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

At June 30, 2017, the City reported an asset of \$5,200 for its proportionate share of the VFFRPF plan's net pension asset. The City's proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2017, the City's proportion was 0.01%.

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

For the year ended December 31, 2017, the City recognized pension expense of \$30. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

NOTE 8 - RISK MANAGEMENT

The city of Pullman is a member of the Washington Cities Insurance Authority (WCIA).

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

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance is self-funded from the members' deductible to \$750,000, for all perils other than flood an 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 investigation consultants for personnel issues and land use problems, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, 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.

The City of Pullman separately purchases commercial standard property insurance coverage for building and personal property; automobile physical damage, inland marine. Boiler and machinery coverage is also purchased. Various deductibles apply by type of coverage.

There were no significant reductions in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years. No insurance settlements have exceeded insurance coverage in 2017 or either of the two preceding fiscal years.

The city of Pullman is a member of the Washington State Transit Insurance Pool (WSTIP).

WSTIP is a 25 member self insurance program located in Olympia, Washington. WSTIP supplies the city of Pullman auto liability, general liability, public officials liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2017, the city of Pullman retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. The city of Pullman has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving six-month's notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Governmental Entities Mutual, Munich Re, and Arch for the liability lines; Alterra and Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

The city of Pullman has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2017:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0
PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
AUTO PHYSICAL DAMAGE			
Auto Physical Damage (below \$250,000 in value)	Fair market value	Limited to \$1,250,000 any	\$5,000

		one vehicle	
Auto Physical Damage for all vehicle with a model year of 2005 or later and valued over \$250,000	Replacement Cost	Limited to \$1,250,000 any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

NOTE 9 - SHORT-TERM DEBT

The City had no short-term debt.

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

The City issues general obligation and revenue bonds to finance the acquisition or construction of major capital assets. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General obligation bonds have been issued for general government and business-type activities and are being repaid from the applicable resources. Revenue bonds are repaid by proprietary fund revenues.

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

DEBT
OUTSTANDING
December 31, 2017

Revenue Bonds and Loans:

2009: \$2,685,000 Water and Sewer Revenue Bond; annual installments until 2029 at various rates between 3.00 and 4.75 percent; proceeds for construction of Airport Water Line and Well 8. Repayments from water/sewer revenues. 1,840,000

2012: \$7,301,092 State of Washington Department of Ecology Water Pollution Control Revolving Fund Loan; annual installments start September 2015 until 2024 at 2.60%; proceeds for secondary process improvements project. Repayment from water/sewer revenues. 5,205,427

2014: \$1,674,000 Columbia State Bank Water and Sewer Revenue Bond; semi-annual installments start June 2015 until December 2023 at 3.24%; proceeds for improvements to the water/sewer utility project. Repayment from water/sewer revenues. 1,047,363

At December 31, 2017, the City has \$0 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$0 in sinking funds and \$205,000 reserves as required by bond indentures.

The annual debt service requirements to maturity for all long-term debt including Capital Leases are as follows:

Year Ending <u>December 31</u>	Governmental Activities		Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	42,995	5,611	1,025,609	244,115
2019	44,789	3,817	1,060,459	214,466
2020	46,659	1,949	1,085,996	183,728
2021	-	-	1,117,239	152,285
2022	-	-	1,149,209	119,915
2023-2027	-	-	2,274,278	240,206
2028-2032	-	-	<u>380,000</u>	<u>27,313</u>
TOTALS	<u>\$134,443</u>	<u>\$11,377</u>	<u>\$8,092,790</u>	<u>\$1,182,028</u>

NOTE 11 - LEASES

A. Capital Leases

The City had one capital lease. Defibrillators were leased for the fire department with a down payment of \$48,606 and a maturity in 2020.

These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Defibrillators	\$224,321
Less Accumulated Depreciation	89,728
Total	\$134,593

The future minimum lease obligation and the net present value of these minimum lease payments for all Capital Leases are as follows:

Year Ending	Governmental Activities		<u>Present Value of Minimum Lease Payments</u>	<u>Balance</u>
	<u>Minimum Lease Payments</u>	<u>Less: Interest</u>		
<u>December 31</u>				
2017				\$134,443
2018	\$48,606	5,611	42,995	\$91,448
2019	48,606	3,817	44,789	\$46,659
2020	<u>48,608</u>	<u>1,949</u>	<u>46,659</u>	\$ (0)
TOTALS	<u>\$145,820</u>	<u>\$11,377</u>	<u>\$134,443</u>	

NOTE 12 - CHANGES TO LONG-TERM LIABILITIES

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

	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2017</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$270,000	\$ -	\$270,000	\$ -	\$ -
Capital Leases	175,715	-	41,272	134,443	42,995
Net OPEB Obligations	2,243,209	549,641	240,768	2,552,082	240,768
Net Pension Liability	5,804,911	4,799,828	5,804,911	4,799,828	-
Compensated Absences	<u>681,971</u>	<u>52,108</u>	<u>-</u>	<u>734,079</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$9,175,806</u>	<u>\$5,401,577</u>	<u>\$6,356,951</u>	<u>\$8,220,432</u>	<u>\$283,763</u>
Business-Type Activities:					
Bonds:					
Revenue Bonds	\$3,163,116	\$ -	\$275,754	\$2,887,362	\$280,841
Government, Bank, and Other Loans	5,931,102	-	725,674	5,205,428	744,768
Net Pension Liability	2,136,144	1,818,799	2,136,144	1,818,799	-
Compensated Absences	<u>185,372</u>	<u>31,643</u>	<u>164</u>	<u>216,851</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$11,415,734</u>	<u>\$1,850,442</u>	<u>\$3,137,736</u>	<u>\$10,128,440</u>	<u>\$1,025,609</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$76,004 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including any estimates for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, insurance policies are adequate to pay all known or pending claims except the claim described below.

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

On July 22, 2014, resolution R-70-14 was passed by Council authorizing the execution of a Joint Operating Agreement for the Pullman-Moscow Regional Airport. The agreement solidifies Pullman and Moscow as equal and joint partners in the operation of the airport, with all related rights and responsibilities, including financial. Approval and execution of the agreement by both Pullman and Moscow will qualify the Pullman-Moscow Regional Airport for Federal Aviation Administration (FAA) grants. The Pullman-Moscow Regional Airport is requesting a FAA grant for the runway re-alignment, which will require an estimated local matching fund of \$6,250,000. The City of Pullman is committed to their one-half share of approximately \$3,125,000 over six years to provide for grant match funds. This exposure is expected to be reduced by fundraising efforts. On July 21, 2015, resolution R-56-15 was passed by Council authorizing a \$2,500,000 restricted donation of local match funds for the Pullman-Moscow Regional Airport Runway Re-alignment Project. As of December 31, 2017, total donations received for this project was \$6,475,000. As of December 31, 2017, the City of Pullman has funded \$2,200,000 for this commitment.

On Jan 4th, 2010 the City as well as several other cities in Washington received a Petition for Refund, from Verizon Northwest dated December 31, 2009, in the amount of \$187,250 for utility taxes paid on DSL service from January 1, 2005 through June 30, 2008. There were no supporting documents for the refund amount. No suit has been filed. Management feels that the claim is not substantiated, and thus there is no way at present to determine the validity or dollar amount of a potential refund. If the claimant's petition is successful, 50% of the claim would be charged to the General Fund, with the remaining amount evenly split between the Street and Transit Funds. Due to the uncertainty, validity and dollar amount of any potential judgment in favor of the Petitioner, there have been no adjustments made to the records of these funds.

On October 24, 2016, Mr. Lankford filed a suit for complaint for damages of \$2.0 million for causing to suffer deprivation of his liberty and civil and constitutional rights, and mental and emotional distress. Most of the parties and allegations were dismissed on summary judgment. Plaintiff counsel has indicated he will appeal these dismissals upon completion of trial. It is unlikely punitive damages will be awarded. If punitive damages are not awarded, the claim is covered by insurance through the Washington Cities Insurance Authority insurance pool.

NOTE 14 - RESTRICTED COMPONENT OF NET POSITION

These resources are set aside for specific uses and/or are restricted by law for specific purposes. The government-wide statement of net position reports \$7,395,371 of restricted component of net position, \$1,344,437 for highway and streets, \$2,189,554 for culture and recreation, \$6,386 for public safety, \$205,000 for debt service, \$276,847 for nonexpendable cemetery perpetual care, \$3,014,890 for nonexpendable permanent endowment, and \$358,257 for other purposes.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

A. Classification of Interfund Transactions

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.

2. Transfers to support the operations of other funds are recorded as "Transfers" and classified with "Other Financing Sources or Uses."
3. Contributions to the capital to enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.
4. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity.

The following table displays interfund balances at December 31, 2017:

Fund Type	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ -	\$ -	\$ -	\$ -
Street	-	-	-	-
Other Gov't Funds	-	-	-	-
Internal Service	-	-	-	-
Agency	-	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table displays interfund activity during 2017:

Fund Type	Transfers	
	In	Out
General Fund	-	\$(137,589)
Street	-	-
Other Gov't Funds	88,210	(2,372)
Internal Service	51,751	-
Agency	-	-
Fiduciary	-	-
Proprietary	-	-
Totals	<u>\$139,961</u>	<u>\$(139,961)</u>

NOTE 16 - RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2017 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	Due from Other Government Units	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$359,335	\$283,814	\$319,326	\$240,063	\$1,202,538
Street Fund	91,145	-	19,629	-	110,774
Other Governmental Funds	34,835	34,004	9,655	-	78,494
Internal Service Funds	-	-	-	<u>6,067</u>	6,067
Doubtful Accounts	<u>(66,845)</u>	-	-	-	<u>(66,845)</u>
Total					
Governmental Activities	<u>\$418,470</u>	<u>\$317,818</u>	<u>\$348,610</u>	<u>\$246,130</u>	<u>\$1,331,028</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities:					
Utility Fund	\$834,323	\$ -	\$3,460,759	\$30,736	\$4,325,818
Transit Fund	-	-	<u>609,274</u>	<u>91,146</u>	<u>700,420</u>
Total					
Business-Type Activities	<u>\$834,323</u>	<u>\$ -</u>	<u>\$4,070,033</u>	<u>\$121,882</u>	<u>\$5,026,238</u>

B. Payables

Payables at December 31, 2017 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$192,081	\$1,095,560	\$585,947	\$1,873,588
Street Fund	33,475	43,054	3,028	79,557
Other Governmental Funds	21,644	11,778	-	33,422
Internal Service Funds	<u>93,449</u>	<u>123,069</u>	<u>-</u>	<u>216,518</u>
Total Governmental Activities	<u>\$340,649</u>	<u>\$1,273,461</u>	<u>\$588,975</u>	<u>\$2,203,085</u>
Business-Type Activities:				
Utility Fund	\$321,340	\$224,116	\$45,078	\$590,534
Transit Fund	<u>10,138</u>	<u>212,018</u>	<u>-</u>	<u>222,156</u>
Total Business-Type Activities	<u>\$331,478</u>	<u>\$436,134</u>	<u>\$45,078</u>	<u>\$812,690</u>

NOTE 17 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

The City adopted the requirements of GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2008. Following accrual accounting principles, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information to determine future demands on future cashflows.

We used the alternative measurement method permitted under GASB Statement No.45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in June 30, 2015 actuarial valuation report issued by the Office of the State Actuary (OSA). Health costs and trends were determined by Milliman and used by the OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial valuation cost method used to determine 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 purpose of this valuation.

A. Plan/Trust Description

The City of Pullman Firemen Pension Fund is a single-employer defined benefit pension fund established and administered by the City in accordance with RCW 41.16.

Other postemployment benefit plans provide lifetime medical benefits to all firefighters and uniformed police officers who were hired prior to October 1, 1977 (RCW 41.26).

There are 15 inactive retirees receiving benefits from the plans as of December 31, 2017.

The City is a participating employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

B. Funding Policy

The City is obligated by the Revised Code of Washington to make all required contributions to the plans. The major funding sources for these plans are property taxes, retail sales and use tax, investment earnings, and the State fire insurance premium tax. These benefits are funded on a pay-as-you-go basis through the General Fund. The City does not have a funding policy and there are no assets designated for the benefits. Employees are not required to make contributions to the plans.

The Association of Washington Cities Employee Benefit Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$2,413.52 per month for non-Medicare enrolled retiree-only coverage and \$1,172.20 for Medicare enrolled retiree. Police retirees of the City receiving medical benefits from the Trust contribute \$1,559.26 per month for non-Medicare enrolled retiree-only coverage and \$854.26 for Medicare enrolled retiree. Fire retirees of the City receiving medical benefits from the Trust contribute \$631.64 per month for non-Medicare enrolled retiree-only coverage and \$540.56 for Medicare enrolled retiree.

C. OPEB Cost and Obligation

The City reimbursed a fixed amount of \$134.00 per month in 2017 for a Medicare supplement for 13 retirees eligible for Medicare.

Employer validated claims for medical and hospitalization reimbursements are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims. The City also carries nursing-home coverage on all active and retired LEOFF 1 employees. During 2017, expenditures of \$240,768 were recognized for postretirement health care. At December 31, 2017, annual required contribution (ARC) is \$661,670 and the adjustment to ARC is \$16,432.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the years ended December 31, were:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$549,641	43.8%	\$2,552,082
2016	\$543,420	44.7%	\$2,243,209

2015	\$601,748	31.2%	\$1,942,792
2014	\$485,781	29.5%	\$1,528,898

D. Funded Status

<u>Funded Status</u>	<u>OPEB Plan</u>
Validation Date	December 31, 2017
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability (AAL)	\$ 7,356,699
Unfunded Actuarial Unfunded Actuarial (UAAL)	\$ 7,356,699
Funded Ratio	0.00%
Covered Payroll	N/A
UAAL - Percentage of Covered Payroll	N/A

<u>Actuarial Methods and Assumptions</u>	<u>OPEB Plan</u>
Validation Date	December 31, 2017
Actuarial Cost Method	Projected Unit Credit
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A

See the Schedule of Funding Progress.

NOTE 18 – HEALTH & WELFARE

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

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

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

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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 19 – ENDOWMENT FUNDS

Endowments are provided to the city on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor did not provide specific instructions, RCW 35.21.100 permits the city Council to authorize to expense the net appreciation of the investments of the endowment funds.

The City of Pullman maintains two permanent funds:

The Lawson Gardens Park Endowment Fund was created to care and maintain the Lawson Gardens Park. This fund comprises of corpus assets and assets available for use for the purpose of paying the maintenance and operation costs of Lawson Gardens Park. Resolution R-24-91 was passed by Council establishing the “Lawson Gardens Park Endowment Fund”, and providing for its administration and the purposes for which assets and income of the fund may be used. For 2017, net decrease in the fair value of investments were \$20,699 reported as restricted for nonexpendable perpetual care on the statement of net position.

The Cemetery Endowment Care Fund was created to provide ongoing maintenance and improvements of the City operated cemeteries. Revenues are generated from a thirty percent portion of the cemetery grave sales. Pullman City Code 4.12 governs the use of the fund. There are no appreciable investments in the fund.

Restricted for nonexpendable perpetual care endowments as of December 31, 2017:

Lawson Gardens Park Endowment Fund	\$3,014,890
Cemetery Endowment Care Fund	276,847
Total Restricted Net Position	<u>\$3,291,737</u>

NOTE 20 - OTHER DISCLOSURES

A. Major Receivables

Washington State University is a major user of the City's wastewater treatment facilities. Through an amended interlocal agreement, it reimburses the City for 36.4 percent of the facility maintenance and operating expenses.

The City has an interlocal agreement with Washington State University to provide fire and emergency medical protective services.

The City has an interlocal agreement with Washington State University to provide public transportation services to staff, students, faculty and retirees.

B. Capital Contributions

Proprietary Activities: The utility fund recorded capital contributions of \$831,326 from contributions of water mains, fire hydrants, and sewer main capital assets contributed from developers and customers.

C. Prior Period Adjustments

Statement of Activities: Net positions at the beginning of 2017 have been restated to reflect the prior year property tax revenues that should have been reported in the government-wide statements. The effect of the restatement was to increase net position by \$259,591.

CITY OF PULLMAN, WASHINGTON
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
12/31/2017	\$ -	\$7,356,699	\$7,356,699	0%	\$ -	0%
12/31/2016	\$ -	\$7,120,720	\$7,120,720	0%	\$ -	0%
12/31/2015	\$ -	\$7,303,218	\$7,303,218	0%	\$ -	0%
12/31/2014	\$ -	\$5,953,920	\$5,953,920	0%	\$ -	0%
12/31/2013	\$ -	\$6,165,530	\$6,165,530	0%	\$ -	0%
12/31/2012	\$ -	\$4,670,149	\$4,670,149	0%	\$ -	0%
12/31/2011	\$ -	\$5,009,851	\$5,009,851	0%	\$ -	0%
12/31/2010	\$ -	\$4,092,490	\$4,092,490	0%	\$ -	0%
12/31/2009	\$ -	\$4,924,307	\$4,924,307	0%	\$ -	0%
12/31/2008	\$ -	\$4,924,307	\$4,924,307	0%	\$ -	0%
12/31/2007	\$ -	\$ -	\$ -	0%	\$ -	0%

CITY OF PULLMAN, WASHINGTON
Schedule of Proportionate Share of the Net Pension Liability
Required Supplementary Information
As of June 30

PERS 1	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0745%	0.0709%	0.0688%
Employer's proportionate share of the net pension liability (asset)	\$3,533,043	\$3,808,738	\$3,803,671
Employer's covered payroll	\$8,711,041	\$8,092,054	\$7,690,502
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.56%	47.07%	49.46%
Plan fiduciary net position as a percentage of the total pension liability	103.07%	108.96%	96.57%

PERS 2/3	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0905%	0.0835%	0.0838%
Employer's proportionate share of the net pension liability (asset)	\$3,085,584	\$4,132,317	\$2,942,501
Employer's covered payroll	\$8,489,890	\$7,806,920	\$7,286,369
Employer's proportionate share of the net pension liability as a percentage of covered payroll	36.34%	52.93%	40.38%
Plan fiduciary net position as a percentage of the total pension liability	101.49%	131.04%	97.46%

LEOFF 1	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0289%	0.0271%	0.0257%
Employer's proportionate share of the net	\$(438,750)	\$(279,383)	\$(309,826)

pension liability (asset)			
Employer's covered payroll	\$334	\$48,167	\$75,456
Employer's proportionate share of the net pension liability as a percentage of covered payroll	(131,362.28%)	(580.03%)	(410.06%)
Plan fiduciary net position as a percentage of the total pension liability	110.24%	90.77%	12.14%

LEOFF 2	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.1866%	0.1928%	0.1763%
Employer's proportionate share of the net pension liability (asset)	\$(2,589,334)	\$(1,121,400)	\$(1,811,981)
State's proportionate share of the net pension liability (asset) associated with the employer	\$(191,211)	\$(185,249)	\$(301,145)
TOTAL	\$(2,780,545)	\$(1,306,649)	\$(2,113,126)
Employer's covered payroll	\$5,828,434	\$5,733,165	\$5,166,930
Employer's proportionate share of the net pension liability as a percentage of covered payroll	(47.71%)	(22.79%)	(40.90%)
Plan fiduciary net position as a percentage of the total pension liability	121.65%	66.38%	533.09%

GASB 68 was implemented for the fiscal year ended December 31, 2015. No information is available prior to this date.

CITY OF PULLMAN, WASHINGTON
Schedule of Employer Contributions
Required Supplementary Information
As of December 31

PERS 1	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$236,964	\$217,380	\$334,195
Contributions in relation to the statutorily or contractually required contributions	<u>\$236,964</u>	<u>\$217,380</u>	<u>\$334,195</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$8,954,184	\$8,326,070	\$7,982,384
Contributions as a percentage of covered payroll	2.65%	2.61%	4.19%

PERS 2/3	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$328,180	\$266,067	\$373,567
Contributions in relation to the statutorily or contractually required contributions	<u>\$328,180</u>	<u>\$266,067</u>	<u>\$373,567</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$8,750,435	\$8,085,761	\$7,618,124
Contributions as a percentage of covered payroll	3.75%	3.29%	10.50%

LEOFF 1	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ -	\$ -	\$143
Contributions in relation to the statutorily or contractually required contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$143</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Covered employer payroll	\$ -	\$7,215	\$79,572
Contributions as a percentage of covered payroll	0.00%	0.18%	0.52%

LEOFF 2	2017	2016	2015
Statutorily or contractually required contributions	\$162,158	\$145,062	\$258,400
Contributions in relation to the statutorily or contractually required contributions	<u>\$162,158</u>	<u>\$145,062</u>	<u>\$258,400</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$5,990,324	\$5,806,229	\$5,490,731
Contributions as a percentage of covered payroll	2.71%	2.50%	5.23%

GASB 68 was implemented for the fiscal year ended December 31, 2015. No information is available prior to this date.

City of Pullman
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

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		
Violence Against Women Office, Department Of Justice (via Department Of Justice)	Violence Against Women Formula Grants	16.588	2016-WF-AX- 0036	4,270	-	4,270	-	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-41	-	7,990,596	7,990,596	7,990,596	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-42	-	5,478,883	5,478,883	5,478,883	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-43	-	8,275,491	8,275,491	8,275,491	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-44	-	2,106,160	2,106,160	2,106,160	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-45	-	1,800,452	1,800,452	1,800,452	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0051-46	-	13,804,452	13,804,452	13,804,452	
Highway Planning and Construction Cluster								
Total CFDA 20.106:				-	39,456,034	39,456,034	39,456,034	
Federal Highway Administration (fhwa), Department Of Transportation (via Federal Highway Administration)	Highway Planning and Construction	20.205	TAP-0027(015)	1,769	-	1,769	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Federal Highway Administration)	Highway Planning and Construction	20.205	STPUS-9938 (005)	1,318,401	-	1,318,401	-	

The accompanying notes are an integral part of this schedule.

City of Pullman
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

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		
	Total Highway Planning and Construction Cluster:			1,320,170	-	1,320,170	-	
Federal Transit Administration (fta), Department Of Transportation (via Federal Transit Administration)	Formula Grants for Rural Areas	20.509	GCB2277	1,320,000	-	1,320,000	-	
Federal Transit Administration (fta), Department Of Transportation (via Federal Transit Administration)	Formula Grants for Rural Areas	20.509	GCB2083	210,417	-	210,417	-	
Federal Transit Administration (fta), Department Of Transportation (via Federal Transit Administration)	Formula Grants for Rural Areas	20.509	GCB2621	461,696	-	461,696	-	
			Total CFDA 20.509:	1,992,113	-	1,992,113	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via National Highway Traffic Safety Administration)	State and Community Highway Safety	20.600	Emphis Patrols	1,100	-	1,100	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via National Highway Traffic Safety Administration)	State and Community Highway Safety	20.600	Impaired Driving	3,808	-	3,808	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via National Highway Traffic Safety Administration)	State and Community Highway Safety	20.600	THC Roadside Detection	1,902	-	1,902	-	

The accompanying notes are an integral part of this schedule.

City of Pullman
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

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		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via National Highway Traffic Safety Administration)	State and Community Highway Safety	20.600	Traffic Safety Equipment	8,834	-	8,834	-	
Total Highway Safety Cluster:				15,644	-	15,644	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2015-FO- 07187	-	18,837	18,837	-	
Total Federal Awards Expended:				3,332,197	39,474,871	42,807,068	39,456,034	

The accompanying notes are an integral part of this schedule.

City of Pullman

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1: BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City's financial statement. The City uses the accrual basis of accounting.

Note 2: PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in 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: FEDERAL AVIATION ADMINISTRATION GRANTS

The City is the primary recipient of all Federal Aviation Administration grants (CFDA 20.106) for its sub recipient, the Pullman-Moscow Regional Airport. As the primary recipient, the City monitors the activities of the sub recipient in accordance with OMB Circular A-133. All other compliance requirements and specific grant terms are tested at the sub recipient level and, as such, are not included in the single audit reports of the City.

Note 4: INDIRECT COST RATE

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

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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