



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Cheney

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

Published December 17, 2018

Report No. 1022700





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

December 17, 2018

Mayor and City Council
City of Cheney
Cheney, Washington

Report on Financial Statements

Please find attached our report on the City of Cheney's financial statements.

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 AUDIT FINDINGS AND RESPONSES

City of Cheney

January 1, 2017 through December 31, 2017

2017-001 The City's accounting and financial statement preparation controls were not adequate to accurately report capital asset contributions and sales tax accruals.

Background

City council, state and federal agencies, and the public rely on the information included in the financial statements and report to make decisions. City management is responsible for designing, implementing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate material weaknesses, defined below in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit identified deficiencies in internal controls over financial reporting, that when taken together, represent a material weakness:

Capital asset contributions

City management was aware of accounting principles related to recording capital contributions from intergovernmental sources. However, before 2017, City management did not identify and record capital contributions from private developers, including assets such as streets, water and/or sewer system infrastructure.

In 2017, based on a *Budgeting, Accounting and Reporting System (BARS)* training attended by City management, the Public Works Department performed an audit of Street Department capital assets that identified private developer contributions that were not previously capitalized by the City, and reported a prior-period adjustment to recognize these capital assets. However, the City did not estimate capital contributions from private developers for its water and sewer infrastructure before submitting the financial statements for audit, because it had not yet finalized the methodology for proper valuation of these assets.

State remittance revenues/receivables

As defined in GASB Statement No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*, local governments earn derived tax revenues, such as sales taxes, when the underlying sales transaction takes place. The State Treasurer collects sales taxes and remits monthly to local governments about two months after the underlying sales transactions.

The City did not properly accrue and record sales and other derived tax revenues or the related receivables in the government-wide and governmental fund financial statements for amounts received in January and February 2018 that were for November and December 2017 tax revenues. While Sales and Use Tax represents the material portion of these revenues, other taxes such as Criminal Justice, Hotel/Motel, and Motor Vehicle Fuel taxes were also affected.

Cause of Condition

Capital asset contributions

Prior to 2017, the City's Accounting and Public Works departments did not have processes or controls in place to identify, track and record capital assets donated by private developers.

State remittance revenues/receivables

The City was aware state tax remittances were delayed from the month earned, but considered each month's remittance relatively equal and decided to recognize revenues in the month they were received. Based on this decision, the City determined the revenues reported in the financial statements would be materially accurate and did not report the related receivable for tax revenues that were both measurable and available but not collected by year-end.

Effect of Condition

Capital asset contributions

The City reported an initial prior-period adjustment of \$1,513,036 to record private developer contributions for Street Department capital assets. However, because the City did not have a complete list of private developer contributions related to its street capital assets, and did not report private developer contributions for water and sewer capital assets, it resulted in the following capital asset errors:

- Understatement in governmental activities by \$931,857
- Understatement in the Water Fund by \$1,076,369
- Understatement in the Sewer fund by \$552,141.

Management corrected these errors.

State remittance revenues/receivables

The City did not report State Treasurer remitted taxes that are measureable and available but not yet collected as of year-end in accordance with generally accepted accounting principles (GAAP). As a result, we identified the following errors. The City:

- Understated receivables by \$250,022 and revenues by \$21,427 in the General Fund
- Understated receivables by \$85,016 and overstated revenues by \$8,476 in the aggregate remaining governmental funds
- Understated receivables by \$335,038 and revenues by \$12,951 in governmental activities

Management corrected these errors.

Recommendation

We recommend the City:

- Establish and follow internal controls to ensure capital assets donated by private developers are identified, properly valued and recorded
- Ensure sales and other derived tax revenues and receivables are properly reported in accordance with the City's established measurement focus as required by GAAP

City's Response

The issue of internal control is complex and requires compliance from all departments. The City of Cheney has historically and continues to mandate, test, and enforce internal controls for all transactions and assets. This finding involves two separate areas; each will be addressed separately.

Capital Asset Contribution

The City of Cheney takes the accurate and timely reporting of all financial transactions very seriously. Reporting on the GAAP basis of accounting, and having a total population of under 13,000, means there are many varied responsibilities for both the Finance Director and the Public Works Director.

The Finance Director and Accounting Manager completed a state BARS training in the fall of 2017 where the subject of assets received through the course of development was raised. It was determined the City did have asset infrastructure

from development dating back to the 1990s that was not included in the asset register. The Finance Director made the City Administration aware of the issue and a multiple year plan was formulated to correct the problem beginning in 2017. The Public Works Director provided, prior to closing the 2017 fiscal year, a listing of streets acquired through development and their cost. Those amounts added to the capital asset listing, adjusted onto the financial statements, and self-disclosed in the Notes to the Financial Statements. City administration was advised there was a second part of this project, to be completed in 2018, when the water and sewer infrastructure would be reconciled and added to the capital asset register and financial statements.

As a result of this issue, the City adopted a policy requiring all final plats be presented to City Council and engineer estimates of the improvements provided to the Finance Department for addition to the Capital Asset register and financial statements.

Sales Tax Accruals

The City has historically reported sales tax on the “cash basis” when included in the financial statements. This diversion from GAAP was reported in the Notes to the Financial Statements. This process has been discussed with our State Auditors various times over the years.

All funds were received accurately and timely into the correct revenue accounts and there was never a question of receiving all revenue due the City of Cheney.

The issue of reporting all taxes on the accrual fiscal period, in combination with related receivables, has been corrected for all taxes.

Auditor’s Remarks

We appreciate the City’s commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Governmental Accounting Standards Board Statement No. 33

Governmental Accounting Standards Board Statement No. 72

Governmental Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Audit Standards section 265

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

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

Mayor and City Council
City of Cheney
Cheney, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cheney, 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 November 15, 2018. As discussed in Note 7 to the financial statements and described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001, the 2017 financial statements have been restated to correct a misstatement.

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.

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

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

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*.

CITY'S RESPONSE TO FINDINGS

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

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 style with a large, sweeping initial "P".

Pat McCarthy
State Auditor
Olympia, WA

November 15, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Cheney
Cheney, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cheney, 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 Cheney, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 7 to the financial statements and described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001, the 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

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

November 15, 2018

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental
Activities – 2017

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual –
General 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 Flow – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Basic 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

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

As management of the City of Cheney, we offer the readers of the City of Cheney's financial statements this narrative overview and analysis of the financial activities of the City of Cheney for the fiscal year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cheney exceeded its liabilities at the close of the most recent fiscal year by \$41,805,479. Of this amount, \$7,271,894 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased in 2017 by \$5,565,028 or 15%. The increase in net position is primary due to:
 - capital asset adjustment to account for streets from private development
 - capital asset adjustment to account for water and sewer infrastructure from private development
 - increased sales tax
 - assessment of a property tax levy lift
 - ongoing expense control
 - continued building activity
 - small utility rate adjustments
- At the close of the current fiscal year, the City of Cheney's governmental funds balance sheet reported combined ending fund balances of \$5,080,628, an increase of \$1,726,510 or 51% in comparison with the prior year. \$2,347,594 of this amount is available for spending at the City's discretion. This is the second year in a row where the governmental funds balance sheet has experienced large growth and continues to be a result from the above mentioned increases in taxes, continued building growth and expense control.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

The *statement of activities* presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cheney, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Cheney can be divided into three categories: Governmental, Proprietary, and Fiduciary.

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

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

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is the only governmental major fund reported in 2017. Data from the other 14 governmental funds are considered to be non-major and are combined into a single, aggregated presentation.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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

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

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governmental financial position. In the case of the City of Cheney, assets exceeded liabilities by \$41,805,479 at the close of 2017, an 15% increase over 2016.

By far the largest portion of the City's net position (79%) reflects the investment in capital assets (e.g. land, buildings, equipment, improvements, and infrastructure), less any related outstanding debt used to acquire those assets. The City of Cheney uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cheney's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

The table below illustrates a comparative view of Net Position for both the governmental and business-type activities for the fiscal years ending 2017 and 2016.

City of Cheney, Washington – Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$6,895,654	\$4,540,774	\$9,486,142	\$9,062,964	\$16,381,796	\$13,603,738
Capital Assets	17,409,353	16,084,006	22,795,675	21,746,009	40,205,028	37,830,015
<i>Total Assets</i>	24,305,007	20,624,780	32,281,817	30,808,973	56,586,824	51,433,753
Deferred Outflows of Resources	362,004	638,065	221,874	374,736	583,878	1,012,801
Long-Term Liabilities Outstanding	3,881,173	4,373,335	8,483,280	9,119,012	12,364,453	13,492,347
Other Liabilities	673,318	535,494	1,438,519	2,064,827	2,111,837	2,600,321
<i>Total Liabilities</i>	4,554,491	4,908,829	9,921,799	11,183,839	14,476,290	16,092,668
Deferred Inflows of Resources	551,139	76,459	337,794	36,976	888,933	113,435
Net Position:						
Net Investment in Capital Assets	17,409,353	16,084,006	15,679,695	13,933,368	33,089,048	30,017,374
Restricted	1,298,401	842,374	146,136	616,611	1,444,537	1,458,985
Unrestricted	853,627	-648,823	6,418,267	5,412,915	7,271,894	4,764,092
<i>Total Net Position</i>	\$19,561,381	\$16,277,557	\$22,244,098	\$19,962,894	\$41,805,479	\$36,240,451

An additional portion of the net position of the City of Cheney (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$7,271,894 may be used to meet the government's ongoing obligation to the citizens and creditors.

Governmental Activities

Governmental activities increased the net position of the City of Cheney by \$3,283,824. Of that increase, \$2,448,892 is the net result of the addition of several city streets into the capital asset register. The streets were installed by the developers and donated to the City at the end of the project from 1995 - 2016. The street addition in combination with the continuation of revenues exceeding expenses all combine for the 20% increase in governmental net position. Key elements of this change in net position are displayed in the table on the following table:

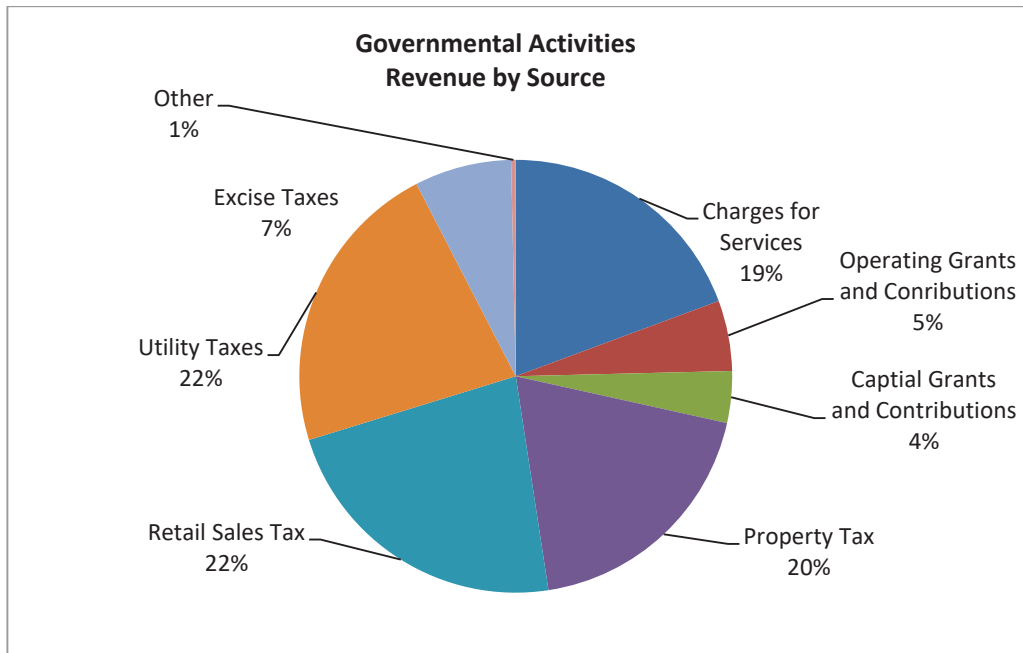
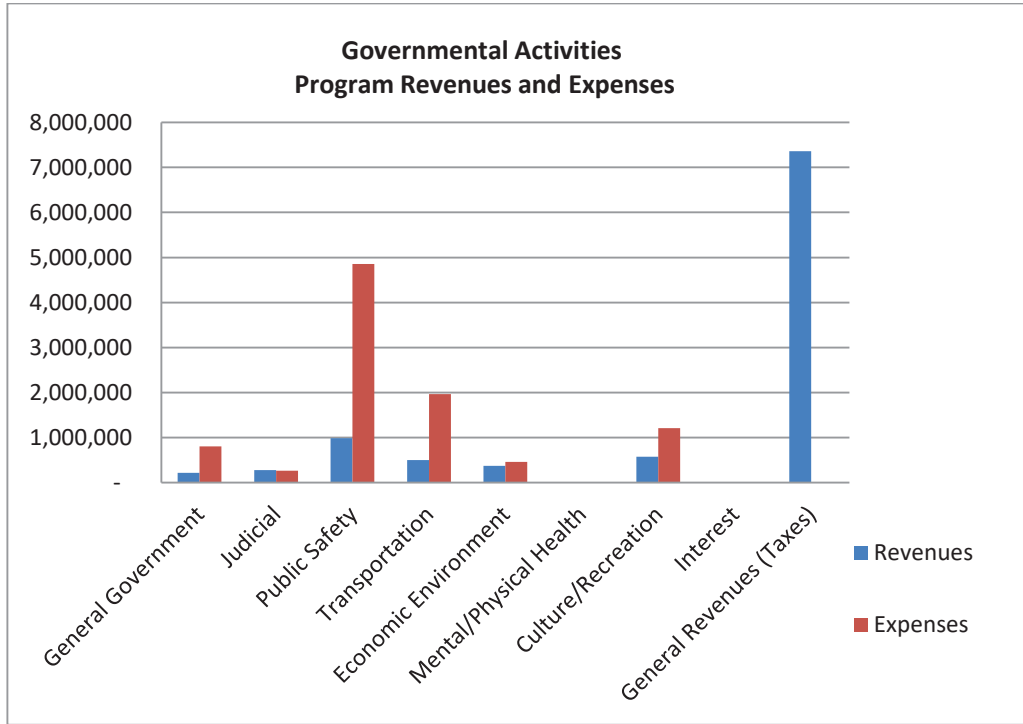
CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

City of Cheney, Washington – Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<i>Revenues:</i>						
Program Revenues						
Charges for Services	\$1,991,346	\$1,993,049	\$14,586,254	\$14,347,620	\$16,577,600	\$16,340,669
Operating Grants/Contributions	541,583	472,159	241,630	432,563	783,213	904,722
Capital Grants/Contributions	397,245	1,106,281	809,892	558,252	1,207,137	1,664,533
General Revenues						
Property Tax	2,052,001	1,922,484	-	-	2,052,001	1,922,484
Retail Sales/Use Tax	2,331,897	1,800,373	-	-	2,331,897	1,800,373
Utility Tax	2,281,240	2,177,130	-	-	2,281,240	2,177,130
Other	780,967	881,514	-	-	780,967	881,514
<i>Total Revenue</i>	10,376,279	10,352,990	15,637,776	15,338,435	26,014,055	25,691,425
<i>Expenses:</i>						
General Government	801,530	877,641	-	-	801,530	877,641
Judicial	261,805	257,485	-	-	261,805	257,485
Public Safety	4,852,599	4,878,921	-	-	4,868,671	4,878,921
Transportation	1,965,330	1,589,496	-	-	1,951,656	1,589,496
Economic Environment	456,907	459,201	-	-	456,907	459,201
Mental/Physical Health	3,090	3,038	-	-	3,090	3,038
Culture and Recreation	1,209,190	1,107,105	-	-	1,212,269	1,107,105
Interest	7,228	645	-	-	7,228	645
Electric	-	-	9,003,172	9,187,379	9,003,172	9,187,379
Water	-	-	1,760,420	1,349,548	1,760,420	1,349,548
Solid Waste	-	-	1,432,071	1,366,543	1,432,071	1,366,543
Sewer	-	-	2,789,419	2,663,939	2,789,419	2,663,939
<i>Total Expenses</i>	9,557,679	9,173,532	14,985,082	14,567,409	24,548,238	23,740,941
Adjustment to Net Position	20,331	14,423	-	-14,453	20,331	-30
Adjustment to Capital Assets	2,444,893	-	1,628,510	-	4,073,403	-
Change in Net Position	818,600	1,179,458	652,694	771,026	1,471,294	1,950,484
Net Position – January 1	16,277,557	15,083,676	19,962,894	19,206,321	36,240,451	34,289,997
Net Position – December 31	\$19,561,381	\$16,277,557	\$22,244,098	\$19,962,894	\$41,805,479	\$36,240,451

- The total governmental revenue in 2017 decreased due to the reduction capital federal and state street/road grants. The decrease was offset by the increase in both property and retail sales taxes.
- Real Estate Excise Tax (REET) continued strong revenues and is the main indicator in our sustained strong housing market.
- Utility Taxes were slightly increased in 2017 due to the strong building permit and housing market.

The graphs below illustrate the breakout of governmental revenues, expenses, and the specific allocation of all governmental revenues.

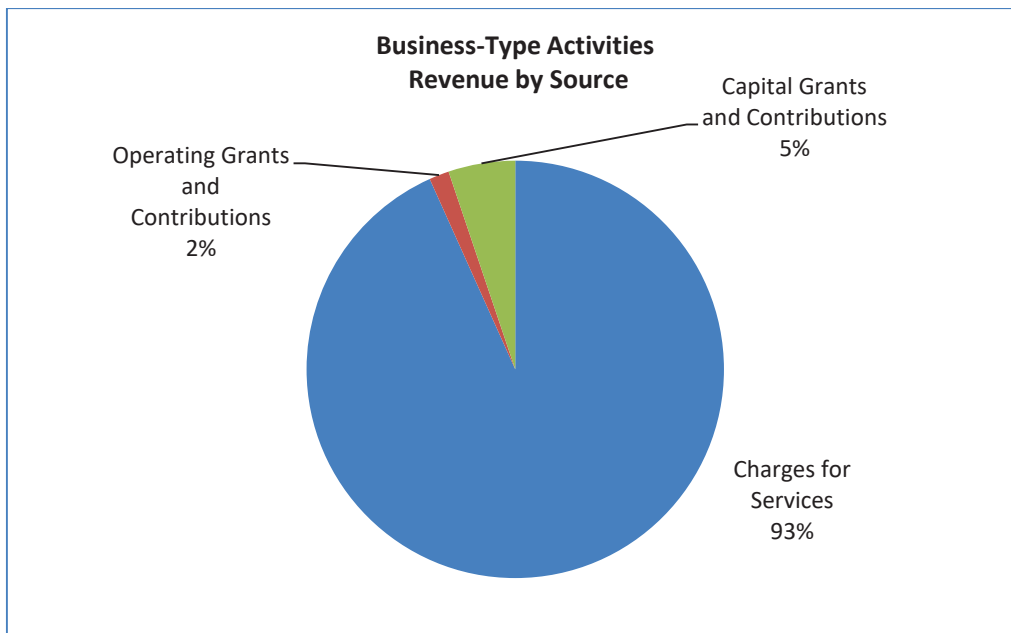
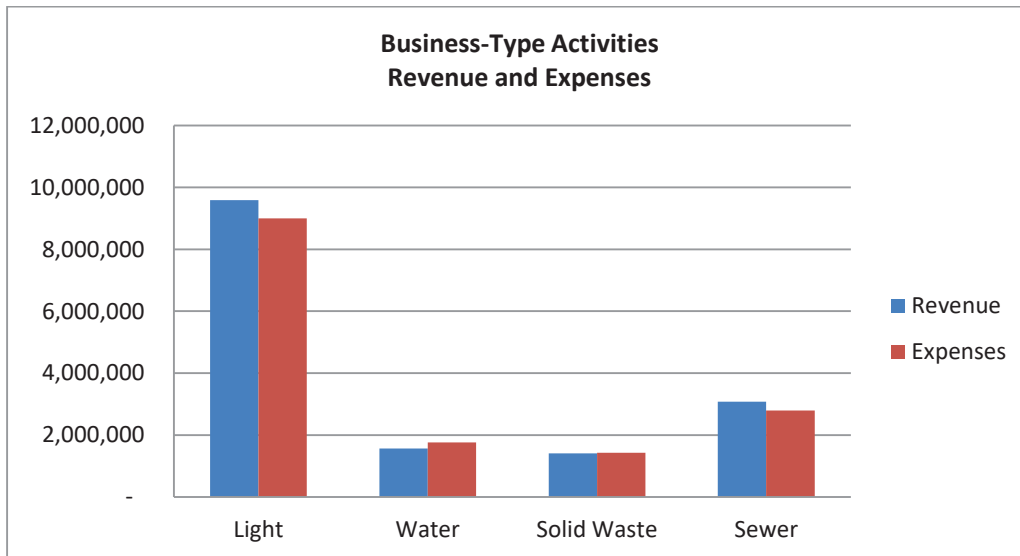
CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2017



CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2017

Business-Type Activities

Business-type activities net position increased in 2017 by \$2,281,204. Of that amount, \$1,628,510 is due to the addition of water and sewer improvements from developers adjusted onto the capital asset register. Improvements were made from 1995 - 2016. The remaining \$652,694 is a result of small utility adjustments, and strong growth through development.



CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2017

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City of Cheney's governmental funds is to provide information on near-term inflows, outflows, and balances of non-spendable, restricted, committed, assigned and unassigned resources. Such information is useful in assessing the City of Cheney's financial requirements. An unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the close of 2017, the City of Cheney's governmental funds balance sheet reported combined ending fund balances (all types) of \$5,080,628, an increase of \$1,726,510 in comparison with the prior year. The City continues to carefully study revenues and expenses in all funds. Additionally, the voter-approved levy lift continues to directly benefit and fund public safety programs and equipment needs.

The general fund is the chief operating fund of the City of Cheney. At the close of 2017, \$2,347,594 is unassigned and available for spending at the City's discretion. As a measure of the general fund's liquidity, it is useful to compare the total of unassigned, assigned and committed fund balance to total general fund expenditures. In 2017, that fund balance ratio is 43% compared to 26% for the prior fiscal year. The difference in the ratio is resulting from the increased unassigned fund balance. The increased revenues in taxes, building permits, and the unassigned levy lift contributed to the increase in the fund balance ratio.

Proprietary Funds

The City of Cheney's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. The net position at the close of 2017 for all four utilities is as follows:

City of Cheney, Washington – Recap of Proprietary Funds Net Position		
Fund	Unrestricted Net Position	Total Net Position
Light	\$3,544,201	\$9,358,891
Water	-55,810	4,890,063
Solid Waste	620,684	1,526,892
Sewer	2,309,192	6,468,252
<i>Total</i>	\$6,418,267	\$22,244,098

GENERAL FUND BUDGETARY HIGHLIGHTS

The following table illustrates the general fund budget including the original budget, amendments, final budget and actual fund expensed. For purposes of this disclosure, other financing uses are also included

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

in this table; budgeted ending fund balance is not included. A detail budget to actual statements is presented with the financial statements later in this document.

General Fund				
<i>Original Budget</i>	<i>Amendments</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Budget Variance</i>
\$7,610,300	\$3,500	\$7,613,800	\$5,976,125	\$1,637,675

The positive budget variance is primarily the result of the allocation of finance and executive charges to the proprietary funds. The cost is transferred to those funds, removing the expense from the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Cheney's investment in capital assets for its government and business-type activities as of December 31, 2017 amounts to \$40,205,028 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, infrastructure, machinery and equipment, and park facilities. The total increase in the City of Cheney's investment in capital assets for the current fiscal year was 8% (8% increase in governmental funds and 5% increase in business-type activities).

Major capital assets events (over \$50,000) during 2017 included the following:

- 2017 Arterial Street/Residential Street Project (s)
- Overhead Electrical Project - Rebuild 4th Street to 7th Street
- Purchase of a New Small Bucket Truck (Light Department)
- Water main Project (Water Department)
- Purchase of a New Garbage Truck
- Upgrade of Wastewater Treatment Plant SCADA
- Replacement of a Wastewater Headworks Dimminutor
- Purchase of a New Dump Truck/Sander

City of Cheney, Washington – Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$1,528,444	\$1,534,444	\$822,250	\$822,250	\$2,350,694	\$2,356,694
Buildings	1,871,620	2,029,181	9,135,345	9,642,448	11,006,965	11,671,629
Improvements	-	-	1,802,973	1,832,545	1,802,973	1,832,545
Infrastructure	13,137,859	11,578,784	8,951,543	7,658,935	22,089,402	19,237,719
Equipment	871,430	941,597	2,053,473	1,790,316	2,924,903	2,731,913
Construction in Progress	-	-	30,091	-485	30,091	-485
Total	\$17,409,353	\$16,084,006	\$22,795,675	\$21,746,009	\$40,205,028	\$37,830,015

For additional detailed capital asset information, please see Note 7 - Capital Assets.

CITY OF CHENEY, WASHINGTON
 Management's Discussion and Analysis
 For the Year Ended December 31, 2017

Long-Term Debt

At the end of 2017, the City of Cheney had long-term debt totaling \$6,691,950 in both governmental and business-type activities. Of this total debt, \$165,716 is business-type activities due for Public Works Trust Fund Loans, \$6,251,538 represents business-type activities for Department of Ecology Loans, \$85,516 is a governmental capital lease and \$189,180 in governmental interfund loans for Equipment Rental Purchases.

City of Cheney, Washington – Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
PWKS Trust Fund	\$	\$-	\$165,716	\$189,390	\$165,716	\$189,390
Department of Ecology	-	-	6,251,538	6,926,590	6,251,538	6,926,590
Interfund Loan	189,180	125,020	-	60,000	189,180	185,020
Capital Lease	85,516	126,207	-	-	85,516	126,207
Total	\$274,696	\$251,227	\$6,417,254	\$7,175,980	\$6,691,950	\$7,427,207

The City of Cheney's total long-term debt decreased by \$735,257 (10%).

For additional detailed long-term debt information, including short term debt payable in 2018, please see Note 12 - Long-Term Debt.

ECONOMIC FACTORS AND CHENEY IN THE FUTURE

The State of Washington operates primarily using property, sales, utility and gas taxes. In comparison, the City of Cheney primarily relies on sales, property and utility taxes, in addition to a limited array of permitted other taxes, fees, and state and federal grants to support governmental activities. Over the past decade, state shared revenues have decreased placing more emphasis on City revenue to maintain essential city services.

For business-type activities, the user pays a related fee for charges associated with the service. There are no governmental taxes or fees for business-type activities. The City Council has approved small rate adjustments in 2017 and 2018 to offset the rise in operational costs as well as meet the higher prices for purchased power and work towards resolving the water pumping issue with well #3. The City will continue to plan for upgrading the City Water system to meet the demands during irrigation season. Planning will include continual reviews of rates and restructuring the rate table to fund infrastructure projects.

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

Cheney continues to promote the acquisition of property available within the Cheney Commerce Park and encourage the development of business with the City. 2018 will bring a new manufacturing business to the Commerce Park to join existing businesses. The commerce park enjoys utilities to the curb and is ready to develop for future business needs.

CITY OF CHENEY, WASHINGTON
Management's Discussion and Analysis
For the Year Ended December 31, 2017

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

REQUESTS FOR INFORMATION

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

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

CITY OF CHENEY, WASHINGTON
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	2017 Total
Assets			
Cash and Cash Equivalents	\$ 5,042,689	\$ 6,109,134	\$ 11,151,823
Investments			-
Restricted Assets	-	631,961	631,961
<i>Receivables:</i>			
Taxes(Utility and Property)	300,099	-	300,099
Utilities		1,321,973	1,321,973
Accounts	711,903	22,964	734,867
Interfund Loan	-	272,620	272,620
Due from Other Governments	56,868	60,248	117,116
Materials and Supplies Inventory	8,215	586,810	595,025
Prepaid Expenses	12,801	35,051	47,852
Land	1,528,444	822,250	2,350,694
Depreciable Capital Assets, Net	15,880,909	21,973,425	37,854,334
Net Pension Asset	763,079	445,381	1,208,460
Total Assets	24,305,007	32,281,817	56,586,824
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	362,004	221,874	583,878
Total Deferred Outflows of Resources	362,004	221,874	583,878
Liabilities			
Accounts Payable	191,437	618,700	810,137
Custodial Accounts	-	25,450	25,450
Refunds/Retainage Payable	281,678	10,133	291,811
Unearned Revenue	145,072	380	145,452
Interest Payable - Current Debt	-	3,208	3,208
Capital Lease Payable	40,691		40,691
Interfund Loan Payable - (Due in one year)	14,440	69,000	83,440
External Debt Payable - (Due in one year)	-	698,726	698,726
Wages Payable	-	12,922	12,922
<i>Long-Term Liabilities:</i>			
Long Term Debt	-	6,417,254	6,417,254
Capital Lease	85,516		85,516
Compensated Absences Payable	790,779	406,606	1,197,385
Other Post Employment Benefits Payable	899,884	-	899,884
Net Pension Liability	1,914,814	1,173,595	3,088,409
Interfund Loan Payable	189,180	-	189,180
Deposits	1,000	485,825	486,825
Total Liabilities	4,554,491	9,921,799	14,476,290
Deferred Inflows of Resources			
Grants Received in Advance	-	-	-
Deferred Inflows Related to Pensions	551,139	337,794	888,933
Total Deferred inflows of Resources	551,139	337,794	888,933
Net Position			
Net Investment in Capital Assets	17,409,353	15,679,695	33,089,048
Restricted for:	-	-	-
Inventories and restricted purposes	1,298,401		1,298,401
Consumer Deposits	-	-	-
Debt Service	-	146,136	146,136
Unrestricted (deficit)	853,627	6,418,267	7,271,894
Total Net Position	\$ 19,561,381	\$ 22,244,098	\$ 41,805,479

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

CITY OF CHENEY, WASHINGTON
Statement of Activities
For the Fiscal Year Ended December 31, 2017

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	801,530	144,182	73,035	-	(584,313)	-	(584,313)
Judicial	261,805	129,109	151,022	-	18,326	-	18,326
Public Safety	4,852,599	789,691	198,573	-	(3,864,335)	-	(3,864,335)
Transportation	1,965,330	86,367	38,048	372,910	(1,468,005)	-	(1,468,005)
Economic Environment	456,907	370,041	-	-	(86,866)	-	(86,866)
Mental and Physical Health	3,090	-	-	-	(3,090)	-	(3,090)
Culture and Recreation	1,209,190	471,956	80,905	24,335	(631,994)	-	(631,994)
Interest	7,228	-	-	-	(7,228)	-	(7,228)
Total Governmental Activities	9,557,679	1,991,346	541,583	397,245	(6,627,505)	-	(6,627,505)
Business-Type Activities:							
Light	9,003,172	9,144,217	188,240	253,021	-	582,306	582,306
Water	1,760,420	1,242,912	19,638	299,873	(197,997)	(197,997)	(197,997)
Solid Waste	1,432,071	1,403,823	7,363	-	(20,885)	(20,885)	(20,885)
Sewer	2,789,419	2,795,302	26,389	256,998	289,270	289,270	289,270
Total Business-Type Activities	14,985,082	14,586,254	241,630	809,892	-	652,694	652,694
Total Government	24,542,761	16,577,600	783,213	1,207,137	(6,627,505)	652,694	(5,974,811)
			Property Taxes		2,052,001		2,052,001
			Retail Sales & Use Tax		2,331,897		2,331,897
			Utility Taxes		2,281,240		2,281,240
			Excise Taxes		745,287		745,287
			Settlements/Judgements		-		-
			Interest		35,680		35,680
			Total General Revenues		7,446,105		7,446,105
			Change in Net Position		818,600	652,694	1,471,294
			Net Position - Beginning of Year		16,277,557	19,962,894	36,240,451
			Capital Asset Adjustment		2,444,893	1,628,510	4,073,403
			Pension Asset Adjustment		20,331	-	20,331
			Net Position - End of Year		\$ 19,561,381	\$ 22,244,098	\$ 41,805,479

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

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

CITY OF CHENEY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets and Outflows of Resources			
Cash and Cash Equivalents	\$ 2,092,697	\$ 2,679,072	\$ 4,771,769
Investments	-		
Receivables			
Taxes - Property	72,777	11,780	84,557
Taxes - Utility	112,934	102,608	215,542
Contracts/Lease	124,200		124,200
Municipal Court	210,780	-	210,780
Other	276,357	100,566	376,923
Inventories	-	6,152	6,152
Prepayments	10,088	2,713	12,801
Due from Other Governments	16,366	40,502	56,868
Total Assets	<u>2,916,199</u>	<u>2,943,393</u>	<u>5,859,592</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	93,570	16,309	109,879
Retainage Payable		32,945	32,945
Other Payables	-	248,733	248,733
Unearned Revenue	285,200	25,059	310,259
Deposits	1,000	-	1,000
Total Liabilities	<u>379,770</u>	<u>323,046</u>	<u>702,816</u>
Deferred Inflows of Resources			
Unavailable Tax	65,511	10,637	76,148
Total Deferred inflows of Resources	<u>65,511</u>	<u>10,637</u>	<u>76,148</u>
Fund Balances			
	<i>Nonspendable</i> -	6,152	6,152
	<i>Restricted</i> -	1,292,249	1,292,249
	<i>Committed</i> -	297,214	297,214
	<i>Assigned</i> 123,324	1,014,095	1,137,419
	<i>Unassigned</i> 2,347,594	-	2,347,594
Total Fund Balance	<u>2,470,918</u>	<u>2,609,710</u>	<u>5,080,628</u>
Total Liabilities and Fund Balance	<u>\$ 2,916,199</u>	<u>\$ 2,943,393</u>	<u>\$ 5,859,592</u>

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

CITY OF CHENEY, WASHINGTON
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2017

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

Total Governmental Fund Balances: \$ 5,080,628

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

Land	1,528,444	
Buildings and structures	4,696,059	
Improvements	1,765	
Infrastructure	31,665,178	
Machinery and Equipment	3,637,515	
Less: Accumulated Depreciation	<u>(24,373,922)</u>	17,155,039

Deferred Outflows related to Pension - not presented in fund financial statements 362,004

Municipal Court and Property Tax receivables are reported at the fund level with current year deferred liabilities. The government wide statement does not report the current year liability. 241,335

Net Pension Assets are reported in the government-wide statements of Net Position, not in the individual fund statements. 763,079

Long-term liabilities, including compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. (790,779)

Long-term liabilities, including other post employment benefits payable are not due and payable in the current period and therefore, are not reported in the governmental funds. (899,884)

Long-Term liabilities, including capital lease payable, are not due and payable in the current period and therefore, are not reported in the governmental funds. (126,207)

Long-Term liabilities, including net pension liability, are not due and payable in the current period and therefore, are not reported in the governmental funds. (1,914,814)

Deferred Inflows related to Pension - not presented in fund financial statements (551,139)

Internal service funds are used by management to charge the costs of certain activities to individual funds. Total assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 242,119

Net Position of Governmental Activities \$ 19,561,381

CITY OF CHENEY, WASHINGTON
 Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended December 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 4,916,688	\$ 1,947,664	6,864,352
Licenses and Permits	273,273	20,627	293,900
Intergovernmental	411,145	719,535	1,130,680
Charges for Services	1,094,433	544,413	1,638,846
Fines and Forfeits	164,512	-	164,512
Miscellaneous	39,082	53,591	92,673
Total Revenues	6,899,133	3,285,830	10,184,963
Expenditures			
General Government	1,013,985	18,922	1,032,907
Public Safety	4,223,798	451,697	4,675,495
Economic Environment	468,965	16,940	485,905
Mental and Physical Health	3,090	-	3,090
Culture and Recreation	4,643	985,628	990,271
Transportation	-	403,494	403,494
Debt Service: Principal	-	39,626	39,626
Debt Service: Interest	-	5,293	5,293
Street Construction	-	746,833	746,833
Purchase of Capital Assets	76,229	24,335	100,564
Total Expenditures	5,790,710	2,692,768	8,483,478
Excess of Revenues over Expenditures	1,108,423	593,062	1,701,485
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	-	39,530	39,530
Transfers In/Out	(125,000)	125,000	-
Increase/Decrease in Fund Equity	(60,415)	45,910	(14,505)
Total Other Financing Sources (Uses)	(185,415)	210,440	25,025
Net Change in Fund Balances	923,008	803,502	1,726,510
Fund Balances - Beginning of Year	1,547,910	1,806,208	3,354,118
Total Fund Balance End of Year	\$ 2,470,918	\$ 2,609,710	\$ 5,080,628

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

CITY OF CHENEY, WASHINGTON
 Reconciliation of Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2017

Net Change in Fund Balance - Total Governmental Funds \$ 1,726,510

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

Internal Service Funds are not included in the Statement of Revenues, Expenditures and Changes in Fund Balances. Those Internal Service Funds are included in the Governmental Activities section of the Statement of Activities because they directly benefit governmental funds. This is the net change in position for the Internal Service Funds 15,187

Depreciation Expense, and Wages Payable for Governmental Funds are not included in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. They are included in the Governmental Funds on the Statement of Activities. (2,058,812)

Other Post Employment Benefits Payable for Governmental Funds are not included in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. The difference of the OPEB Liability and the actual amount paid on the "pay as you go basis" is included in the Governmental Funds on the Statement of Activities. (187,616)

Debt Service (lease payment) made on the new Capital Lease is removed from governmental expenditures and a reduction of the Long-Term Liability is made. 39,626

Capital Items are included on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. These expenses are moved to capital assets on the Statement of Net Position and are not shown on the Statement of Activities. Annual Depreciation is given in the Statement of Activities to show assets as they are used. 847,397

Sale of Capital Asset - reported on fund statements and statement of Net Position. (2,000)

Governmental fund statements report the current year uncollected revenue. The government-wide statements include the past two years as part of the reported revenue. This amount is the difference between the total court receivable and deferred revenue plus the property tax unavailable revenue on the Governmental Fund Statement. 70,814

Pension Expense and LEOFF 2 state contribution for Pensions are not included in the Governmental funds but included in the Statement of Activities 367,494

Change in Net Position of Governmental Activities \$ 818,600

CITY OF CHENEY, WASHINGTON
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual
 For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,394,600	\$ 4,394,600	\$ 4,916,688	\$ 522,088
Licenses and Permits	245,600	245,600	273,273	27,673
Intergovernmental	297,400	297,400	411,145	113,745
Charges for Services	2,457,300	2,457,300	1,094,433	(1,362,867)
Fines and Forfeits	162,800	162,800	164,512	1,712
Miscellaneous	23,000	23,000	39,082	16,082
Total Revenues	7,580,700	7,580,700	6,899,133	(681,567)
Expenditures				
General Government	2,362,700	2,366,200	1,013,985	1,352,215
Public Safety	4,216,600	4,216,600	4,223,798	(7,198)
Physical Environment	459,800	459,800	-	459,800
Economic Environment	376,000	376,000	468,965	(92,965)
Mental and Physical Health	-	-	3,090	(3,090)
Culture and Recreation	3,100	3,100	4,643	(1,543)
Capital Lease	-	-	-	-
Capital	67,100	67,100	76,229	(9,129)
Debt Service: Principal	-	-	-	-
Debt Service: Interest	-	-	-	-
Total Expenditures	7,485,300	7,488,800	5,790,710	1,698,090
Excess of Revenues over Expenditures	95,400	91,900	1,108,423	1,016,523
Other Financing Sources (Uses)				
Sale of Capital Asset		-	-	-
Increase/Decrease Fund Equity			(60,415)	(60,415)
Insurance Recoveries	40,000	40,000	-	(40,000)
Operating Transfers In/Out	(125,000)	(125,000)	(125,000)	-
Total Other Financing Sources (Uses)	(85,000)	(85,000)	(185,415)	(100,415)
Net Change in Fund Balances	10,400	6,900	923,008	916,108
Fund Balances - Beginning of Year	89,600	93,100	1,547,910	1,454,810
Total Fund Balance - End of Year	\$ 100,000	\$ 100,000	\$ 2,470,918	\$ 2,370,918

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

CITY OF CHENEY, WASHINGTON
Statement of Net Position
Proprietary Funds
December 31, 2017

	Light	Water	Solid Waste	Sewer	Total Enterprise Funds	Internal Service Funds
Assets						
Cash and Cash Equivalents	\$ 3,197,432	\$ 107	\$ 675,359	\$ 2,236,236	\$ 6,109,134	\$ 270,920
Investments						
<i>Receivables</i>						
Utility	874,204	83,099	117,215	247,455	1,321,973	-
Other	-	12,369	625	9,970	22,964	-
Governmental Units	1,565	13,239	-	45,444	60,248	-
Interfund loan	203,620	-	-	69,000	272,620	-
Inventories	343,223	79,899	-	163,688	586,810	2,063
Prepaid Expenses	25,221	5,727	1,894	2,209	35,051	-
Total Current Assets	4,645,265	194,440	795,093	2,774,002	8,408,800	272,983
<i>Noncurrent Assets</i>						
Restricted cash, cash equiv, & Invest						
Debt Service Covenant		-	-	146,136	146,136	-
Custodial	484,925	-	900	-	485,825	-
Total Restricted Assets	484,925	-	900	146,136	631,961	-
Net Pension Asset	187,060	57,900	57,900	142,521	445,381	-
<i>Capital Assets</i>						
Land	64,726	22,386	-	735,138	822,250	-
Building and Structures	3,854,244	2,469,037	697,831	13,845,720	20,866,832	-
Other Improvements	239,036	36,535	194,324	1,862,323	2,332,218	2,833
Machinery and Equipment	2,262,558	434,351	1,534,789	2,537,658	6,769,356	718,762
Infrastructure	10,474,077	9,359,835	-	9,439,870	29,273,782	-
Construction in Progress	30,091	-	-	-	30,091	-
Less: Accumulated Depr	(11,110,042)	(7,376,271)	(1,520,736)	(17,291,805)	(37,298,854)	(467,281)
Total Capital Assets (net of accumulated depr)	5,814,690	4,945,873	906,208	11,128,904	22,795,675	254,314
Total Noncurrent Assets	6,486,675	5,003,773	965,008	11,417,561	23,873,017	254,314
Total Assets	11,131,940	5,198,213	1,760,101	14,191,563	32,281,817	527,297
Deferred Outflow Related to Pensions	93,187	28,844	28,844	70,999	221,874	-
Liabilities						
<i>Current Liabilities</i>						
Accounts Payable	551,108	15,983	34,433	17,176	618,700	81,558
Retainage Payable	2,062	8,071	-	-	10,133	-
<i>Loans Payable: Short Term</i>						
Interfund (due in 2018)	-	69,000	-	-	69,000	14,440
External (due in 2017)	-	-	-	698,726	698,726	-
Unearned Revenue	380	-	-	-	380	-
Wages Payable	12,922	-	-	-	12,922	-
Customer Payments Held	25,450	-	-	-	25,450	-
Total Current Liabilities	591,922	93,054	34,433	715,902	1,435,311	95,998
<i>Noncurrent Liabilities</i>						
Loans Payable	-	-	-	6,417,254	6,417,254	-
Accrued Interest Payable	-	-	-	3,208	3,208	-
Interfund Loan Payable	-	-	-	-	-	189,180
Consumer Deposits Payable	484,925	-	900	-	485,825	-
Compensated Absences	154,606	47,460	30,240	174,300	406,606	-
Net Pension Liability	492,910	152,567	152,567	375,551	1,173,595	-
Total Noncurrent Liabilities	1,132,441	200,027	183,707	6,970,313	8,486,488	189,180
Total Liabilities	1,724,363	293,081	218,140	7,686,215	9,921,799	285,178
Deferred Inflow Related to Pensions	141,873	43,913	43,913	108,095	337,794	-
Net Position						
Net Investment in Capital Assets	5,814,690	4,945,873	906,208	4,012,924	15,679,695	254,314
Restricted	-	-	-	146,136	146,136	2,063
Unrestricted	3,544,201	(55,810)	620,684	2,309,192	6,418,267	(14,258)
Total Net Position	\$ 9,358,891	\$ 4,890,063	\$ 1,526,892	\$ 6,468,252	\$ 22,244,098	\$ 242,119

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

CITY OF CHENEY, WASHINGTON
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

	Light	Water	Solid Waste	Sewer	Total Enterprise Funds	Internal Service Funds
Operating Revenues:						
Charges for Services	\$ 9,124,776	\$ 1,236,448	\$ 1,396,688	\$ 2,784,476	\$ 14,542,388	\$ 96,684
Other Operating Revenues	19,441	6,464	7,135	10,826	43,866	-
Total Operating Revenues	9,144,217	1,242,912	1,403,823	2,795,302	14,586,254	96,684
Operating Expenses:						
Purchased Power	5,758,200	-	-	-	5,758,200	-
Administration	488,376	494,935	109,077	1,156,080	2,248,468	65,913
Taxes	337,112	62,754	20,714	79,526	500,106	-
Depreciation	592,973	389,090	152,950	886,403	2,021,416	14,237
Recycling Center/Litter Control	-	-	17,536	-	17,536	-
Solid Waste Collection	-	-	921,298	-	921,298	-
Maintenance	1,083,055	473,980	-	330,587	1,887,622	-
Customer Accounting/Cost Allocation	647,393	244,423	209,269	327,304	1,428,389	-
Fiber Operations	9,816	-	-	-	9,816	-
Total Operating Expenses	8,916,925	1,665,182	1,430,844	2,779,900	14,792,851	80,150
Operating Income (Loss)	227,292	(422,270)	(27,021)	15,402	(206,597)	16,534
NonOperating Revenues						
Investment Earnings	28,346	13	6,907	22,630	57,896	588
Interest Expense	-	(3,487)	-	(9,231)	(12,718)	-
Miscellaneous Revenue	112,357	19,619	450	612	133,038	-
Intergovernmental	40,509	6	6	8	40,529	-
Sale of Surplus	800	-	-	3,139	3,939	-
Sale of Capital Asset	-	-	-	-	-	-
Conservation	(86,247)	-	-	-	(86,247)	-
Insurance Recovery	4,948	-	-	-	4,948	-
Increase/Decrease in Fund Equity	1,280	(91,751)	(1,227)	(288)	(91,986)	(1,935)
Total Nonoperating Revenue/ (Expenses)	101,993	(75,600)	6,136	16,870	49,399	(1,347)
Income (loss) before contributions	329,285	(497,870)	(20,885)	32,272	(157,198)	15,187
Capital Contributions	253,021	299,873	-	256,998	809,892	-
Increase (Decrease) in Net Position	582,306	(197,997)	(20,885)	289,270	652,694	15,187
Net Position, January 1	8,776,585	4,011,691	1,547,777	5,626,841	19,962,894	226,932
Prior Period - Capital Asset Adjustment	-	1,076,369	-	552,141	1,628,510	-
Net Position, December 31	\$ 9,358,891	\$ 4,890,063	\$ 1,526,892	\$ 6,468,252	\$ 22,244,098	\$ 242,119

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

CITY OF CHENEY, WASHINGTON
Statement of Cash Flow
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

	Light	Water	Solid Waste	Sewer	Total Enterprise Funds	Internal Service Funds
Cash Flow from Operating Activity						
Received from Customers	\$ 9,311,070	\$ 1,248,574	\$ 1,423,279	\$ 2,803,619	\$ 14,786,542	\$ 132,232
Payments for goods and services	(8,480,180)	(1,388,092)	(1,331,440)	(1,951,157)	(13,150,869)	11,568
Net cash provided by operations	<u>\$ 830,890</u>	<u>\$ (139,518)</u>	<u>\$ 91,839</u>	<u>\$ 852,462</u>	<u>\$ 1,635,673</u>	<u>\$ 143,800</u>
Cash Flow Non Capital Financing Activities						
Received from other sources	386,550	342,734	(25)	215,442	944,701	72,020
Payments nonoperating expense	(86,247)	-	-	-	(86,247)	(1,935)
Interest on interfund loan	1,935	(3,487)	-	3,488	1,936	-
Interfund Loan	(72,020)	(51,000)	-	51,000	(72,020)	-
Net cash nonoperating activities	<u>230,218</u>	<u>288,247</u>	<u>(25)</u>	<u>269,930</u>	<u>788,370</u>	<u>70,085</u>
Cash Flow from Investing Activities						
Receipts of interest & dividends	26,409	13	6,907	19,141	52,470	588
Net cash investing activity	<u>26,409</u>	<u>13</u>	<u>6,907</u>	<u>19,141</u>	<u>52,470</u>	<u>588</u>
Cash Flow Capital Financing						
Received from grants and loans	44,044	-	-	-	44,044	-
Payments/interest on debts	-	-	-	(705,892)	(705,892)	-
Payments for capital acquisitions	(552,462)	(280,906)	(266,100)	(312,528)	(1,411,996)	(77,636)
Net cash used in capital financing	<u>(508,418)</u>	<u>(280,906)</u>	<u>(266,100)</u>	<u>(1,018,420)</u>	<u>(2,073,844)</u>	<u>(77,636)</u>
Net Increase in cash equivalents	579,099	(132,164)	(167,379)	123,113	402,669	136,837
Cash and Equivalents, January 1	<u>3,103,258</u>	<u>132,271</u>	<u>843,638</u>	<u>2,259,259</u>	<u>6,338,426</u>	<u>134,083</u>
Cash and Equivalents, December 31	<u>\$ 3,682,357</u>	<u>\$ 107</u>	<u>\$ 676,259</u>	<u>\$ 2,382,372</u>	<u>\$ 6,741,095</u>	<u>\$ 270,920</u>
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating Income (Loss)	\$ 227,292	\$ (422,270)	\$ (27,021)	\$ 15,402	\$ (206,597)	\$ 16,534
Adjustments used to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	592,973	389,090	152,950	886,403	2,021,416	14,237
Pension Expense (GASB 68)	(71,876)	(32,401)	(32,401)	(34,455)	(171,133)	-
(Increase) decrease in acct receivable	166,853	5,662	19,456	8,317	200,288	35,548
(Increase) decrease in inventories	(55,877)	15,948	-	(3,371)	(43,300)	831
(Increase) decrease in prepaid expenses	(14,978)	(2,575)	(559)	(55)	(18,167)	-
Increase (decrease) in acct payable	(27,560)	(96,368)	(11,812)	(32,228)	(167,968)	76,650
Increase (decrease) in compensated absences payable	11,138	3,395	(8,774)	12,449	18,208	-
Increase (decrease) customer credits	2,925	-	-	-	2,925	-
Adjustment to Net Position - See Note 19	-	-	-	-	-	-
Total Adjustments	<u>603,598</u>	<u>282,751</u>	<u>118,860</u>	<u>837,060</u>	<u>1,842,269</u>	<u>127,266</u>
Net Cash Provided by Operating Activities	<u>\$ 830,890</u>	<u>\$ (139,519)</u>	<u>\$ 91,839</u>	<u>\$ 852,462</u>	<u>\$ 1,635,672</u>	<u>\$ 143,800</u>

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

CITY OF CHENEY, WASHINGTON

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2017

	Agency Funds
	2017
Assets	
Cash and Cash Equivalents	\$ 42,300
Receivable	50
Investments	-
Total Assets	<u>42,350</u>
Deferred Outflows of Resources	<u>-</u>
Liabilities	
Held for Future Year Disbursement	42,350
Accounts Payable	-
Total Liabilities	<u>42,350</u>
Deferred Inflows of Resources	<u>-</u>
Net Position	<u>\$ -</u>

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

The City of Cheney reports the following major governmental fund:

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

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

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

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

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

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

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

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

C. Measurement Focus, Basis of Accounting

1. Government Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as both are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

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

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

2. Proprietary Funds

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City of Cheney are charges for services. Operating expenses for the City proprietary funds includes purchased power, infrastructure maintenance, solid waste disposal costs, sewer collection and treatment, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

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

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Annual appropriated budgets are adopted at the level of the fund, and the budgets constitute the legal authority of expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare budgeted amounts with actual revenues and expenditures. Annual appropriations for all funds lapse at year end.

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

2. Amending the Budget

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

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

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

3. Excess of Expenditures over Appropriations

There was one fund with excess expenditures over appropriations at the end of the 2017 fiscal year. The Parks and Recreation fund exceeded their authorized budget of \$938,000 by \$47,708. The Parks and Recreation fund is presented in combination with the Parks Capital/Equipment fund in the financial statements as a non-major governmental fund. After combining the two funds, the expenditures are within the authorized budget.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the City of Cheney's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$11,783,785, of which \$9,394,551 is invested in short term investments. This amount is classified on the balance sheet as cash and cash equivalents as well as investments in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents can also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balance maintained during 2017 was \$3,208,652.

CITY OF CHENEY, WASHINGTON
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2017

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

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

3. Receivables

Taxes receivable consist of both property tax receivables including property taxes and related interest and penalties (See Property Tax Note No. 6), and utility tax receivable at year end. Accrued interest receivable consists of amounts earned on investments at the end of the year.

There are currently the following utility taxes being assessed on City of Cheney utilities:

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

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

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

4. Amounts Due to and from Other Funds

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

5. Inventories

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

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

6. Restricted Assets and Liabilities

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

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

Enterprise Funds	
Sewer Fund – Payment of Debt	146,136
Total	<u>\$146,136</u>

CITY OF CHENEY, WASHINGTON
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2017

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

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

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

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

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

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

8. Compensated Absences

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

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

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

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

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

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

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

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

	Accumulated Sick	Vacation	Unpaid Amounts at 12/31/17
Governmental Funds	\$390,889	\$399,890	\$790,779
Proprietary Funds	231,444	175,162	406,606
Total	\$622,333	\$575,052	\$1,197,385

The above table shows the sick and vacation accruals at December 31, 2017. In addition, there is \$12,922 accumulated as wages/benefits payable in Business Type Activities (Light Fund).

9. Pensions

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

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

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

12. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. The City of Cheney reports unearned revenue of \$145,072 in the governmental activities. 2018 revenues from early recreation registrations and business licenses renewals were received in 2017 account for \$25,059 and \$120,013 is largely unearned revenue from a long-term lease of City property.

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

13. Fund Balance Classification

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

- Nonspendable Fund Balance
 - Portion of net resources that cannot be spent because of their form.
 - Portion of net resources that cannot be spent because they must be maintained intact.
- Restricted Fund Balance
 - Limitations imposed by creditors, grantor, contributors, or laws and regulations of other governments.
 - Limitations imposed by law through constitutional provisions or enabling legislation (RCW).
- Committed Fund Balance
 - Limitation imposed at the highest level of decision making.
 - Committed fund balance must be set annually by City Council.
- Assigned Fund Balance
 - Intended use by body designated for that purpose.
 - Assigned fund balance is set annually by Finance Committee of City Council.
- Unassigned Fund Balance
 - Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance.
 - Excess of nonspendable, restricted, and committed fund balance over fund balance in special revenue funds.

14. Fund Balance Details

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

1. Restricted
2. Committed
3. Assigned

Process for Committing Funds

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

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Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Governmental Funds – Fund Balance Designation – Detail by Specific Purpose			
Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable:</i>			
Inventory	\$ -	\$6,152	\$6,152
<i>Restricted for:</i>			
Road Construction/Streets			
Public Safety		526,183	526,183
Culture and Recreation		5,000	5,000
Tourism		147,657	147,657
Capital		613,409	613,409
<i>Committed to:</i>			
Road Construction/Streets		154,989	154,989
Public Safety		85,610	85,610
City Beautification		56,615	56,615
<i>Assigned to:</i>			
Road Construction/Streets		285,200	285,200
Public Safety		222,059	222,059
Culture and Recreation	4,201	499,801	504,002
Information Technology	119,123		119,123
Tourism		1,244	1,244
City Beautification		696	696
Capital		5,095	5,095
<i>Unassigned:</i>			
	2,347,594	0	2,347,594
Totals	\$2,470,918	\$2,609,710	\$5,080,628

15. Minimum Fund Balance

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

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

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

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

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

The governmental funds' statement of revenues, expenditures, and changes in fund balances include reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - ACCOUNTING AND REPORTING CHANGES

There have been no accounting and reporting changes in 2017.

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

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

On December 31, 2017, the carrying amount of the City's cash demand deposit with Banner Bank was \$2,382,927. Petty Cash on hand was \$7,500.

Additionally, the City of Cheney Municipal Court recorded a carrying amount in the court account of \$35,822.

B. Investments

As of December 31, 2017, the City of Cheney had the following investments:

Investment	Fair Value	Total
State Investment Pool	\$9,394,551	\$9,394,551

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

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 6– PROPERTY TAX

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

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

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

The City of Cheney may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services. The City of Cheney’s regular levy for 2017 was \$3.10 per \$1,000 on an assessed valuation of \$571,130,330 for a total regular levy of \$1,770,504 before adjustments by the Spokane County Assessor.

The Emergency Medical Service Levy is in year 5 of 6. The 2017 EMS Levy was \$.48 per \$1,000 on an assessed valuation of \$571,130,330 for a total levy of \$273,232.

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

NOTE 7 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2017 was as follows:

	Beginning Balance 1/1/2017	Increases	Decreases/ Adjustments	Ending Balance 12/31/2017
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$1,534,444	\$	\$-6,000	\$1,528,444
Capital Assets, being depreciated:				
Buildings	4,665,746	30,313		4,696,059
Other Improvements	4,598			4,598
Machinery & Equipment	4,225,434	147,886	-17,043	4,356,277
Infrastructure	26,586,031	746,833	4,332,314	31,665,178
Total Capital Assets being depreciated	35,481,809	925,032	4,315,271	40,722,112
Less Accumulated Depreciation for:				
Buildings	2,636,565	187,874		2,824,439
Other Improvements	4,598			4,598
Machinery & Equipment	3,283,836	218,054	-17,043	3,484,847

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For the Year Ended December 31, 2017

Infrastructure	15,007,247	1,636,650	1,883,422	18,527,319
Total Accumulated Depreciation	20,932,246	2,042,578	1,866,379	24,841,203
Total Capital Assets, being depreciated, Net	14,549,563	-1,117,546	2,448,892	15,880,909
Governmental Activity, Capital Assets, Net	\$16,084,007	\$-1,117,546	\$2,442,892	\$17,409,353

	Beginning Balance 1/1/2017	Increases	Decreases/ Adjustments	Ending Balance 12/31/2017
Business-Type Activities				
Capital Assets, not being depreciated:				
Land	\$822,250			\$822,250
Capital Assets, being depreciated				
Buildings	20,791,146	90,629	-14,943	20,866,832
Other Improvements	2,328,969	3,249		2,332,218
Machinery & Equipment	6,168,217	610,015	-8,876	6,769,356
Infrastructure	24,790,524	644,286	3,838,972	29,273,782
Total Assets being depreciated	54,078,856	1,348,179	3,815,153	59,242,188
Less Accumulated Depreciation for:				
Building	11,148,698	597,732	-14,943	11,731,487
Other Improvements	496,425	32,820	-	529,245
Machinery & Equipment	4,377,899	346,860	-8,876	4,715,883
Infrastructure	17,131,587	1,044,004	2,146,648	20,322,239
Total Accumulated Depreciation	33,154,609	2,021,416	2,122,829	37,298,854
Total Capital Assets, being depreciated, net	20,924,247	-673,237	1,692,324	21,943,334
Work in Progress/Not yet Assigned	-485		30,576	30,091
Business-type Activity, Capital Assets, Net	\$21,746,012	\$-673,237	\$1,722,900	\$22,795,675

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

Governmental Activities:	
General Government	\$130,629
Security of Persons/Property	159,742
Economic Environment	1,646
Transportation	1,503,564
Culture and Recreation	246,997
Total Depreciation – Governmental Activities	\$2,042,578
Business-Type Activities:	
Light	\$592,973
Water	389,090
Solid Waste	152,950
Sewer	886,403
Total Depreciation – Business type Activities	\$2,021,416

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

An audit of streets, water and sewer infrastructure additions to the City asset system, provided by development, in the City of Cheney provided a listing of streets, one park, and both water and sewer infrastructure development by private contracts not included in the general government transportation asset, culture and recreation assets, water and sewer infrastructure assets. Those assets

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

added/adjusted to the asset listing and depreciated from their conveyance date to the City. Below is the table for governmental, water and sewer additions and depreciation adjustments.

Street/Park	Governmental		Water		Sewer	
	Original Value	Depreciation Adjustment	Original Value	Depreciation Adjustment	Original Value	Depreciation Adjustment
Al Ogdon Way	\$355,680	\$321,594	\$74,143	\$67,038	\$50,366	\$45,540
Alki Street	379,525	134,415	-	-	-	-
Bethany Street	298,350	284,676	66,856	63,792	44,823	42,769
Betz Road	-	-	140,703	134,254	146,401	139,691
Cambridge Lane	-	-	39,578	37,764	20,638	19,692
Cheney Middle School	-	-	288,478	58,898	-	-
Condor Drive	95,368	5,166	26,875	1,456	17,606	954
Eagle Point	-	-	236,376	83,717	155,859	55,200
Eaton Lane	-	-	47,724	45,537	20,710	19,761
Egret Street	234,353	2,250	52,749	621	35,692	443
Golden Hills Drive	783,836	522,004	154,961	102,004	111,285	74,088
Greenbrier Lane	-	-	25,058	15,139	11,196	6,764
Grove	-	-	176,769	80,283	114,354	51,936
Hampton Lane	-	-	51,982	49,599	23,899	22,803
Harvest Bluff Drive	178,703	7,670	54,131	2,323	21,336	380
Hibbard Park	123,190	117,544	-	-	-	-
Hillside Drive	390,364	152,574	86,878	33,502	56,344	21,741
Lilac Court	-	-	26,119	26,119	16,290	16,290
Marcella Avenue	-	-	26,693	26,693	19,708	19,708
Marigold Lane	-	-	11,936	6,017	5,567	2,806
Meadow Glenn Lane	-	-	124,684	100,147	84,563	68,370
Montague Drive	45,750	23,066	23,620	11,909	5,695	2,871
N. 8 th Street	104,532	73,608	17,467	12,300	9,969	7,020
Orchards Street to SR904	-	-	130,005	117,538	87,355	78,986
Osprey Drive	299,649	2,523	64,544	663	43,987	490
Oxford Circle	-	-	47,882	45,688	22,931	21,880
Pheasant Street	359,786	21,880	77,673	4,833	53,211	3,304
Pincrest Lane	-	-	21,737	13,133	14,159	8,555
Princeton Lane	-	-	17,502	16,700	9,244	8,820
Quail Drive	234,906	24,469	49,606	5,167	46,156	4,808
Silverthorne Lane	-	-	57,792	52,254	13,743	12,425
Sunrise Drive	208,010	104,872	38,634	19,479	28,261	14,249
Terra Vista	240,312	85,111	41,929	14,850	24,765	8,771
Thistle Creek Lane	-	-	64,038	42,927	43,915	29,388
Wheaton Lane	-	-	12,509	11,936	8,241	7,863
Whispering Oak Lane	-	-	16,729	13,711	12,529	10,291
Totals	\$4,332,314	\$1,883,422	\$2,394,360	\$1,317,991	\$1,380,798	\$828,657

CITY OF CHENEY, WASHINGTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 8 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$-3,088,409
Pension Assets	\$1,208,460
Deferred outflows of resources	\$583,878
Deferred inflows of resources	\$-888,933
Pension expense/expenditures	\$189,422

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

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

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

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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%	6.00%
Administration Fee	0.18%	-
Total	12.70%	6.00%

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

The City of Cheney's actual contributions to the plan were \$8,934 for the year ended December 31, 2017.

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

CITY OF CHENEY, WASHINGTON
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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 - June 2017 and 18.45% for July - December 2017.

The City of Cheney's actual contributions to the plans were \$509,949 for the year ended December 31, 2017.

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.

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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 1 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%

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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	8.93%	8.75%

The City of Cheney’s actual contributions to the plan were \$121,343 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 of Cheney as its proportionate share of this amount is \$71,767.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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.

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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 changes in methods and assumptions since the last valuation.

- * For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- * How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- * For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 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, 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.

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,975,340	\$1,621,536	\$1,315,065
PERS 2/3	\$3,951,911	\$1,466,874	-\$569,246
LEOFF 1	-\$148,511	-\$200,212	-\$244,612
LEOFF 2	\$210,306	-\$971,845	-\$1,935,012

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City of Cheney reported a total pension asset of \$1,208,460 and a total pension liability of \$3,088,409 for its proportionate share of the net pension liabilities as follows:

	Asset/Liability
PERS 1 (Liability)	\$1,621,536
PERS 2/3 (Liability)	1,466,874
LEOFF 1 (Asset)	\$200,212
LEOFF 2 (Asset)	\$971,845
Fire Volunteer (Asset)	\$36,403

The amount of the liability (asset) reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City of Cheney. The amount recognized by the City of Cheney as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City of Cheney were as follows:

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	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$200,212	\$971,845
State's proportionate share of the net pension asset associated with the employer		71,767
TOTAL	\$200,212	\$1,043,612

At June 30, the City of Cheney'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	.036263%	.034173%	-.002090%
PERS 2/3	.044849%	.042218%	-.002631%
LEOFF 1	.013535%	.013196%	-.000339%
LEOFF 2	.070376%	.070034%	-.000342%

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 41.27.725 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 of Cheney recognized pension expense as follows:

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	Pension Expense
PERS 1	-\$10,787
PERS 2/3	195,650
LEOFF 1	-27,984
LEOFF 2	32,543
TOTAL	\$189,422

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$60,511
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$113,783	\$0
TOTAL	\$113,783	\$60,511

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$148,629	\$48,243
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$391,033
Changes of assumptions	\$15,581	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$27,794	\$103,581
Contributions subsequent to the measurement date	\$166,307	\$0
TOTAL	\$358,311	\$542,857

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual	\$0	\$18,604

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investment earnings on pension plan investments		
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
TOTAL	\$0	\$18,604

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$42,714	\$36,854
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$218,186
Changes of assumptions	\$1,170	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$3,519	\$11,920
Contributions subsequent to the measurement date	\$64,191	\$0
TOTAL	\$111,594	\$266,960

Deferred outflows of resources related to pensions resulting from the City of Cheney's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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	PERS2/3	LEOFF 1	LEOFF 2
2018	\$-40,902	\$-163,274	\$-11,676	\$-103,273
2019	12,913	37,036	3,149	19,662
2020	-2,998	-46,822	-1,257	-18,013
2021	-29,524	-172,646	-8,820	-98,009
2022	-	-2,156	-	-3,558
Thereafter	-	-2,802	-	-16,366
Total	\$-60,511	\$-350,664	\$-18,604	\$-219,557

The City of Cheney participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Principal Fund. The table below illustrates the City's pension asset, proportionate share, and annual contribution to the fund.

Net Pension Asset	Proportionate Share	Proportionate %	Annual Contribution
\$37,100,000	\$36,403	.10%	\$270

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NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of \$899,884 is included as a noncurrent liability on the Statement of Net Position. ARC for the 2017 fiscal year is \$338,664.

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding years were as follows:

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Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	City Contribution	Net OPEB Obligation
12/31/2008	\$327,408	49.12%	\$160,819	\$166,589
12/31/2009	\$303,277	55.20%	\$167,396	\$302,470
12/31/2010	\$254,861	60.42%	\$153,980	\$403,351
12/31/2011	\$235,354	53.53%	\$125,977	\$512,728
12/31/2012	\$220,616	62.26%	\$137,348	\$595,996
12/31/2013	\$198,462	65.11%	\$129,224	\$665,234
12/31/2014	\$187,004	89.20%	\$166,809	\$685,429
12/31/2015	\$172,522	95.31%	\$164,426	\$693,525
12/31/2016	\$162,454	88.46%	\$143,711	\$712,268
12/31/2017	\$302,391	37.96%	\$114,775	\$899,884

NOTE 10 – RISK MANAGEMENT

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

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

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

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

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

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

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

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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.

Medical Insurance

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

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

As of December 31, 2017, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

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

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250

CITY OF CHENEY, WASHINGTON
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employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer’s termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

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

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

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

NOTE 11 – SHORT TERM DEBT

The City of Cheney is holding \$9,000 in short-term interfund debt for the year ending December 31, 2017. The interfund loan was issued for water operations and payable to the sewer fund. Please see Note 14 for the 2017 payments of long-term liabilities.

NOTE 12 – LONG TERM DEBT

The following schedule of Long-Term Debt provides a listing of outstanding external debt of the City. As of December 31, 2017, has three outstanding debt obligations consisting of:

<i>Issue</i>	<i>Purpose</i>	<i>Year</i>	<i>Original Amount</i>	<i>Interest Rate</i>	<i>Federal Arbitrage?</i>
DOE #1	WWTP Construction - Refinanced FmHA/Washington State DOE/SRF	2004	\$2,481,245.51	1.5%	N
PWTF #6	WWTP Expansion	2006	\$448,700	5%	N
DOE #2	WWTP Expansion	2010	\$11,569,000	0%	N

The annual requirements to amortize the debt, including interest are as follows:

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Year Ending December 31,	Principal	Interest	Total
2019	700,822	5,660	706,482
2020	702,949	3,414	706,363
2021	632,041	1,136	633,177
2022	559,517	474	559,991
2023	559,517	355	559,872
2024-2028	2,726,565	355	2,726,920
2029-2033	535,843	0	535,843
Total	\$6,417,254	\$11,394	\$6,428,648

All above referenced long-term debt has a fixed interest rate. The short term portion of the long term debt, due in 2018, is comprised of principal \$698,726 and interest of \$7,874 for a total amount due of \$706,600.

NOTE 13 – LEASES

A. Operating Leases

The City of Cheney leases various pieces office equipment and an IBM i-series under noncancelable operating leases. Total cost for such leases was \$64,755 for the year ended December 31, 2017.

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

Year Ending December 31,	Amount
2018	61,503
2019	24,504
2020	14,660
2021	9,086
Total	\$109,753

B. Capital Leases

The City of Cheney entered into a four year agreement in 2017 for financing three (3) police vehicles. The lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Assets
Police Car Leases (3)	\$168,089
(Less Depreciation)	(39,221)
Total	\$128,868

Below is the remaining obligation and the net present value of the minimum lease payments as of 2017.

Year Ending December 31	Governmental Activities
2018	44,919
2019	44,918
2020	44,918
Total Minimum Lease Payments	\$134,755
Less: Interest	(8,548)
Present Value of Minimum Lease Payments	\$126,207

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C. Long-Term Leases on City Property

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

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

NOTE 14 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities, as presented on the Statement of Net Position:

	Beginning Long-Term 1/1/2017	Additions	Reductions	Ending Long-Term 12/31/2017	Current L-T Portion Due One Year
Governmental Activities:					
Interfund Loan Payable	\$131,600	\$78,600	\$6,580	\$203,620	\$14,440
Capital Leases	165,833	-	39,626	126,207	40,691
OPEB Payable	712,268	187,616	-	899,884	-
Pension Liability	2,649,532	-	734,718	1,914,814	-
Compensated Absences	760,308	30,471	-	790,779	-
Government Activity Long-Term Liabilities	\$4,419,541	\$30,471	\$780,924	\$3,935,304	\$55,131
Business-Type Activities:					
Internal Loan Payable	\$120,000	\$0	\$60,000	\$60,000	\$60,000
External Loan Payable	7,812,641	-	696,661	7,115,980	698,726
Pension Liability	1,556,074	-	382,479	1,173,595	-
Compensated Absences	386,958	19,648	-	406,606	-
Business-type Activity Long-Term Liabilities	\$9,875,673	\$19,648	\$1,139,140	\$8,756,181	\$758,726

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

NOTE 15 – CONTINGENCIES AND LITIGATION

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

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

As of December 31, 2017, there are no pending claims against the City.

NOTE 16 – RESTRICTED NET POSITION

The government-wide statement of net position reports \$1,298,401 of restricted component of net position in the Governmental Activities for inventories and restricted revenues. Additionally, The City of Cheney reports \$146,136 of restricted component of net position in the Business-Type Activities for debt service.

NOTE 17 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at December 31, 2017 were as follows:

		Due From			
Due To		Water	Equip Rental		Total
	Sewer	69,000			69,000
	Light		203,620		203,620
	Total	\$69,000	\$203,620		\$272,620

The interfund balances are a result of interfund loans. The City of Cheney utilizes reserve balances in other funds to provide short and long term interfund loans to other funds. The interest rate is 1% above what the loaning fund is receiving from the Washington State Investment Pool.

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

Loan	Purpose	Repaid in 2018
Water	Operational and Equipment	Yes
Equipment Rental	Purchase of Grader	No
Equipment Rental	Purchase of Street Sander	No

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B. Interfund Transfers

Interfund transfers at December 31, 2017 were as follows:

Transfer To	Transfer From				Total
	General Fund	Street Fund	Regular – Purpose		
Street Fund	\$125,000		Regular – Street Operations		\$125,000
Total	\$125,000				\$125,000

NOTE 18 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2017 were as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts	\$711,903	\$22,964	\$734,867
Taxes (Property & Utility)	300,099	-	300,099
Utilities	-	1,321,973	1,321,973
Due from Other Governments	56,868	60,248	117,116
Interfund Loan	-	272,620	272,620
Totals	\$1,068,870	\$1,654,841	\$2,746,675

B. Payables

Payables at December 31, 2017 were as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts	\$191,437	\$618,700	\$810,137
Custodial Accounts	0	25,450	25,450
Mitigation/Retainage	281,678	10,133	291,811
Interest	0	3,208	3,208
Capital Lease	126,207	0	126,207
Loans/Debt	203,620	7,184,980	7,388,600
Compensated Absences/Wages	790,779	419,528	1,210,307
Post-Employment Benefits	899,884	0	899,884
Pension Liability	1,914,814	1,173,595	3,088,409
Totals	\$4,408,419	\$9,435,594	\$13,844,013

NOTE 19 – INTERGOVERNMENTAL REVENUES OF THE GENERAL FUND

The city annually records and monitors time spent by the Office of the Mayor and the Finance Department for the Finance and Executive charges and the Public Works Administration Staff for the Public Works Administration charges to accurately reflect the time charge to the proprietary funds for those charges for services performed by the general fund. The funds are classified as an operating expense in the Street, Light, Water, Solid Waste and Sewer funds and are recorded in the General Fund.

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At year end, the revenue is closed into the general fund expense accounts to allow for one expense to be recorded in the financial statements for those operating expenses. In 2017 \$1,016,888 was closed in the expense accounts in the Mayor’s office, Finance Department, and Legal Services division. \$399,869 was closed into Public Works Administration to account for the maintenance and operations cost of Public Works Administration.

NOTE 20 – INCREASES/DECREASES TO FUND EQUITY

The following table identifies all increases/decreases to fund equity. The City performed a street audit of all streets, parks, water and sewer infrastructure added to the City assets as a result of development.

The City removed 2 parcels of land from the Capital Asset Register. Both parcels were sold to Spokane Transit Authority in 2000 for the purposes of establishing a park and ride.

The City of Cheney participates in the Washington State Volunteer Firefighters relief and pension fund. The pension asset is included in the 2017 Statement of Net Position. The prior period pension asset of \$20,331 is disclosed as a pension asset adjustment on the Statement of Activities.

The table below illustrates the adjustment of original less depreciation adjustment through 2016.

Fund	Asset Increases	Asset Decrease	Depreciation Adjustment	Pension Adjustment	Amount
Governmental Capital Assets	\$4,332,314	-\$4,000	-\$1,883,421	\$-	\$2,444,893
Pension Adjustment				20,331	20,331
Total Government Activity Adjustment	\$4,332,314	-\$4,000	-\$1,883,421	\$20,331	\$2,465,224
Water Capital Assets	2,394,360		-1,317,991		\$1,076,369
Sewer Capital Assets	1,380,797		-828,656		552,141
Total Business-Type Activity Adjustment	\$3,775,157	\$	-\$2,146,647	\$-	\$1,628,510

Other Post Employment Benefits						
Required Supplementary Information						
LEOFF 1 Retiree Medical Benefits						
Schedule of Funding Progress						
Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2007	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2008	\$ -	\$3,516,217	\$3,516,217	0%	\$ -	0%
12/31/2009	\$ -	\$3,350,403	\$3,350,403	0%	\$ -	0%
12/31/2010	\$ -	\$2,900,648	\$2,900,648	0%	\$ -	0%
12/31/2011	\$ -	\$2,743,277	\$2,743,277	0%	\$ -	0%
12/31/2012	\$-	\$2,641,514	\$2,641,514	0%	\$ -	0%
12/31/2013	\$-	\$2,446,620	\$2,446,620	0%	\$ -	0%
12/31/2014	\$-	\$2,359,344	2,359,344	0%	\$ -	0%
12/31/2015	\$-	\$2,214,249	\$2,214,249	0%	\$-	0%
12/31/2016	\$	\$2,110,306	\$2,110,306	0%	\$-	0%
12/31/2017	\$-	\$3,765,398	\$3,765,398	0%	\$-	0%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
City of Cheney, Washington
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 3 Fiscal Years

PERS 1				
	2017	2016	2015	
<u>Employer's proportion of the net pension liability (asset)</u>	0.034173	0.036263	0.035051	%
<u>Employer's proportionate share of the net pension liability</u>	\$ 1,621,536	\$ 1,947,494	\$ 1,833,493	
<u>Employer's covered employee payroll</u>	\$ 4,213,038	\$ 4,247,577	\$ 3,932,716	
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	38.49%	45.85%	46.62%	%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	61.24%	57.03%	59.10%	%
PERS 2/3				
	2017	2016	2015	
<u>Employer's proportion of the net pension liability (asset)</u>	0.042218	0.044849	0.043559	%
<u>Employer's proportionate share of the net pension liability</u>	\$ 1,466,874	\$ 2,258,112	\$ 1,556,388	
<u>Employer's covered employee payroll</u>	\$ 4,139,171	\$ 4,176,635	\$ 3,865,082	
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	35.44%	54.07%	40.27%	%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	90.97%	85.82%	89.20%	%
LEOFF 1				
	2017	2016	2015	
<u>Employer's proportion of the net pension liability (asset)</u>	0.013196	0.013535	0.014061	%
<u>Employer's proportionate share of the net pension Asset</u>	\$ 200,212	\$ 139,449	\$ 169,466	
<u>Employer's covered employee payroll</u>	\$ -	\$ -	\$ -	
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	0.00%	0.00%	0.00%	%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	135.96%	123.74%	127.36%	%
LEOFF 2				
	2017	2016	2015	
<u>Employer's proportion of the net pension liability (asset)</u>	0.070034	0.070376	0.068166	%
<u>Employer's proportionate share of the net pension asset</u>	\$ 971,845	\$ 409,328	\$ 700,610	
<u>State's proportionate share of the net pension liability (asset) associated with the employer</u>	\$ -	\$ -	\$ -	
<u>Employer's covered employee payroll</u>	\$ 2,190,794	\$ 2,131,986	\$ 1,978,447	
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	44.36%	19.20%	35.41%	%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	113.36%	106.04%	111.67%	%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Cheney, Washington
 Schedule of Employer Contributions
 As of December 31, 2017
 Last 3 Fiscal Years

PERS 1				
	2017	2016	2015	
<u>Statutorily or contractually required contributions</u>	\$ 217,988	207,365	180,544	
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (217,988)	(207,365)	(180,544)	
<u>Contribution deficiency (excess)</u>	\$ -	-	-	
<u>Employers Covered Employee Payroll</u>	\$ 4,344,343	4,178,552	4,025,502	
PERS 2/3				
	2017	2016	2015	
<u>Statutorily or contractually required contributions</u>	\$ 293,104	260,908	223,074	
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (293,104)	(260,908)	(223,074)	
<u>Contribution deficiency (excess)</u>	\$ -	-	-	
<u>Employers Covered Employee Payroll</u>	\$ 4,269,402	4,105,769	3,957,114	
LEOFF 1				
	2017	2016	2015	
<u>Statutorily or contractually required contributions</u>	\$ -	-	-	
<u>Employers Proportionate share of Net Pension Liability</u>	\$ -	-	-	
<u>Contribution deficiency (excess)</u>	\$ -	-	-	
<u>Employers Covered Employee Payroll</u>	\$ -	-	-	
LEOFF 2				
	2017	2016	2015	
<u>Statutorily or contractually required contributions</u>	\$ 117,329	109,375	104,139	
<u>Employers Proportionate share of Net Pension Liability</u>	\$ (117,329)	(109,375)	(104,139)	
<u>Contribution deficiency (excess)</u>	\$ -	-	-	
<u>Employers Covered Employee Payroll</u>	\$ 2,241,639	2,188,461	2,075,966	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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