



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Airway Heights

For the period January 1, 2017 through December 31, 2018

Published December 26, 2019

Report No. 1025373





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

December 26, 2019

Mayor and City Council
City of Airway Heights
Airway Heights, Washington

Report on Financial Statements

Please find attached our report on the City of Airway Heights 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

TABLE OF CONTENTS

Schedule of Audit Findings and Responses.....	4
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.....	7
Independent Auditor's Report on Financial Statements.....	10
Financial Section.....	14
About the State Auditor's Office.....	68

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Airway Heights January 1, 2017 through December 31, 2018

2018-001 The City did not have adequate internal controls over financial statement preparation to ensure accurate financial reporting.

Background

City management is responsible for designing, implementing, and maintaining internal controls to ensure the financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting.

The City prepares its financial statements in accordance with the cash basis of accounting, under the *Budgeting, Accounting and Reporting System* (BARS) manual. Our audit identified deficiencies in the City's internal controls over financial reporting that hindered the City's ability to produce reliable financial statements.

Government Accounting Standards requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a significant deficiency:

- City staff responsible for compiling financial information lacked technical knowledge and experience needed to accurately prepare the financial statements, notes to the financial statements, and schedules of liabilities.
- The City lacked an effective review process to ensure amounts reported in the financial statements and schedules agreed to the underlying accounting records and followed BARS Manual guidance.
- The City's monthly bank reconciliation process did not ensure the accounting records accurately reflected the cash held in financial institutions.
- The City relied on its accounting software to generate accurate financial statements.

Cause of Condition

The City experienced turnover in key accounting positions that are involved in the preparation of the City's annual report. Because of this, the City did not adequately review the financial statements, notes and supplementary schedules of the annual financial report to ensure they were complete and accurate.

Effect of Condition

Because of these deficiencies, our audit identified the following:

Fiscal year 2017

In the Fund Resources and Uses arising from Cash Transactions, the City overstated "transfers in" and "transfers out" by \$1,408,562.

Fiscal year 2018

In the Fund Resources and Uses arising from Cash Transactions, the City:

- Incorrectly classified reserved portions of cash and investments as unreserved in the amount of \$11,200,013 for all funds
- Understated revenues by \$456,431. This error was not corrected.
- Understated expenditures by \$431,393. This error was not corrected.

In the Notes to the Financial Statements, the City:

- Understated net pension asset for LEOFF 2 by \$1,182,053
- Omitted its explanation for negative budget variances of \$1,353,990
- Incorrectly included an interfund loan of \$487,192

We also identified other less significant errors in the City's annual report.

The City corrected all of the above errors on the financial statements, except the ones noted above as uncorrected.

Recommendations

We recommend the City strengthen internal controls and dedicate the resources necessary to ensure it can:

- Prepare timely and complete monthly reconciliations of the general ledger to bank statements

- Ensure all staff responsible for preparing financial statements have the necessary resources and training to prepare accurate and complete financial statements in accordance with reporting standards
- Conduct an effective, independent financial statement review that ensures the required financial statement package is accurate and meets reporting standards

City's Response

The City of Airway Heights concurs with the State Auditor's assessment for the Cause of Condition for the Audit Finding itemized on the Schedule of Audit Findings and Responses 2018-001. Over the past twelve months, the City did not have critical roles staffed to support the preparation of the 2017 and 2018 Annual Report and Financial Statements. These roles, Clerk-Treasurer and Assistant Clerk-Treasurer, have been filled over the past two months. We are ensuring that any future preparation of Annual Reports, Financial Statements, and any accounting controls will be adequate and sufficient for audit purposes and the stewardship of public funds.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues noted and will follow up during the next scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System (BARS)* manual, 3.1.3, Internal Control, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**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 Airway Heights
January 1, 2017 through December 31, 2018**

Mayor and City Council
City of Airway Heights
Airway Heights, 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 City of Airway Heights, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City’s financial statements, and have issued our report thereon dated December 9, 2019.

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor’s *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 that we consider to be significant deficiencies.

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, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

December 9, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Airway Heights January 1, 2017 through December 31, 2018

Mayor and City Council
City of Airway Heights
Airway Heights, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Airway Heights, for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Airway Heights has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Airway Heights, and its changes in cash and investments, for the years ended December 31, 2018 and 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Airway Heights, as of December 31, 2018 and 2017, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019 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

December 9, 2019

FINANCIAL SECTION

City of Airway Heights January 1, 2017 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to the Financial Statements – 2018
Notes to the Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018
Schedule of Liabilities – 2017

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 Current Expense Fund	101 Street Fund	104 Park Reserve Fund
Beginning Cash and Investments					
30810	Reserved	20,772,936	165,227	43,590	1,040,556
30880	Unreserved	10,485,443	1,979,916	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,715,651	5,404,871	-	-
320	Licenses and Permits	329,465	310,973	16,417	-
330	Intergovernmental Revenues	1,983,674	324,692	186,778	-
340	Charges for Goods and Services	6,903,984	1,237,880	209,215	323,108
350	Fines and Penalties	43,679	43,679	-	-
360	Miscellaneous Revenues	2,722,199	453,859	172,776	16,461
Total Revenues:		18,698,653	7,775,954	585,186	339,569
Expenditures					
510	General Government	1,589,869	1,572,010	-	-
520	Public Safety	4,387,357	4,387,357	-	-
530	Utilities	4,318,725	4,543	-	-
540	Transportation	457,184	-	447,502	-
550	Natural and Economic Environment	869,423	858,423	-	-
560	Social Services	1,129	1,129	-	-
570	Culture and Recreation	1,231,003	1,095,084	-	-
Total Expenditures:		12,854,691	7,918,547	447,502	-
Excess (Deficiency) Revenues over Expenditures:		5,843,962	(142,593)	137,684	339,569
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	3,318,614	801,555	137,700	-
385	Special or Extraordinary Items	239,617	-	-	-
386 / 389	Custodial Activities	202,506	154,937	-	-
381, 395, 398	Other Resources	383,820	654	-	-
Total Other Increases in Fund Resources:		4,144,557	957,146	137,700	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	14,221,249	689,265	9,388	-
591-593, 599	Debt Service	2,881,694	10,339	-	-
597	Transfers-Out	3,318,614	216,359	-	1,142,005
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	176,906	144,345	-	-
581	Other Uses	31,434	31,434	-	-
Total Other Decreases in Fund Resources:		20,629,896	1,091,742	9,388	1,142,005
Increase (Decrease) in Cash and Investments:		(10,641,378)	(277,188)	265,996	(802,436)
Ending Cash and Investments					
5081000	Reserved	11,200,013	-	309,587	238,120
5088000	Unreserved	9,416,989	1,867,955	-	-
Total Ending Cash and Investments		20,617,003	1,867,955	309,587	238,120

The accompanying notes are an integral part of this statement.

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		111 Criminal Justice Fund	113 Craig Rd & SR 2 Impact Fee Fd	137 Landfill Closure Reserve Fund	155 Hotel/Motel Special Tax
Beginning Cash and Investments					
30810	Reserved	33,130	549,279	352,408	422,927
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	168,659	-	-	56,376
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	12,570	-	-	-
340	Charges for Goods and Services	-	11,566	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,097	7,575	7,680	6,200
Total Revenues:		182,327	19,141	7,680	62,576
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	3,126	-
540	Transportation	-	9,682	-	-
550	Natural and Economic Environment	-	-	-	11,000
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	9,682	3,126	11,000
Excess (Deficiency) Revenues over Expenditures:		182,326	9,459	4,554	51,576
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	31,434	-
Total Other Increases in Fund Resources:		-	-	31,434	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	160,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		160,000	-	-	-
Increase (Decrease) in Cash and Investments:		22,326	9,459	35,988	51,576
Ending Cash and Investments					
5081000	Reserved	55,457	558,738	388,395	474,503
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		55,457	558,738	388,395	474,503

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		160 Casino Impact Reserve Fund	201 Sewer G.O. Bond "97" Debt Fund	205 Aquatic & Fitness Center Debt Service Fd	301 Capital Improvement Fd -REET 1
Beginning Cash and Investments					
30810	Reserved	85,629	8,427	454,372	598,728
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	773,569	156,088
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	375,579	117	2,384	7,837
Total Revenues:		375,579	117	775,953	163,925
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		375,579	117	775,953	163,925
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	1,078,000	-
597	Transfers-Out	374,250	-	-	729,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		374,250	-	1,078,000	729,000
Increase (Decrease) in Cash and Investments:		1,329	117	(302,047)	(565,075)
Ending Cash and Investments					
5081000	Reserved	86,958	8,544	152,325	33,652
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		86,958	8,544	152,325	33,652

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		305 Special Capital Projects Fd-REET 2	310 Capital Projects Fund	315 Aquatic & Fitness Center Constr. Fund, 2	401 Water/Sewer Fund
Beginning Cash and Investments					
30810	Reserved	567,328	419,757	12,136,465	3,895,115
30880	Unreserved	-	-	-	8,505,527
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	156,088	-	-	-
320	Licenses and Permits	-	-	-	2,075
330	Intergovernmental Revenues	-	1,459,633	-	-
340	Charges for Goods and Services	-	-	-	5,122,216
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	7,445	5,121	153,701	1,504,366
Total Revenues:		163,533	1,464,754	153,701	6,628,657
Expenditures					
510	General Government	-	-	-	17,859
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	4,311,055
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	135,919	-
Total Expenditures:		-	-	135,919	4,328,915
Excess (Deficiency) Revenues over Expenditures:		163,533	1,464,754	17,782	2,299,742
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	2,379,359	-
385	Special or Extraordinary Items	-	-	-	239,617
386 / 389	Custodial Activities	-	-	-	47,569
381, 395, 398	Other Resources	-	-	-	351,732
Total Other Increases in Fund Resources:		-	-	2,379,359	638,918
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,764,919	9,978,381	1,779,295
591-593, 599	Debt Service	-	-	-	1,793,355
597	Transfers-Out	697,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	32,562
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		697,000	1,764,919	9,978,381	3,605,211
Increase (Decrease) in Cash and Investments:		(533,467)	(300,165)	(7,581,240)	(666,550)
Ending Cash and Investments					
5081000	Reserved	33,861	119,591	4,555,226	4,185,057
5088000	Unreserved	-	-	-	7,549,035
Total Ending Cash and Investments		33,861	119,591	4,555,226	11,734,092

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 Current Expense Fund	101 Street Fund	104 Park Reserve Fund
Beginning Cash and Investments					
30810	Reserved	15,661,426	107,204	55,719	60,947
30880	Unreserved	9,980,704	1,840,389	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,350,066	5,117,709	-	-
320	Licenses and Permits	528,508	517,958	7,725	-
330	Intergovernmental Revenues	2,424,604	264,349	174,970	-
340	Charges for Goods and Services	6,737,704	724,972	11,210	973,375
350	Fines and Penalties	30,784	30,784	-	-
360	Miscellaneous Revenues	2,620,195	383,122	168,728	6,234
Total Revenues:		18,691,862	7,038,894	362,633	979,609
Expenditures					
510	General Government	1,279,796	1,278,435	-	-
520	Public Safety	4,049,447	4,025,235	-	-
530	Utilities	3,364,186	8,832	-	-
540	Transportation	464,655	-	464,655	-
550	Natural and Economic Environment	827,160	817,752	-	-
560	Social Services	2,801	2,801	-	-
570	Culture and Recreation	1,831,999	943,128	-	-
Total Expenditures:		11,820,044	7,076,184	464,655	-
Excess (Deficiency) Revenues over Expenditures:		6,871,817	(37,291)	(102,022)	979,609
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	3,114,372	-	-	-
397	Transfers-In	1,778,916	656,651	114,694	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	193,828	148,503	-	-
381, 395, 398	Other Resources	38,877	1,031	-	-
Total Other Increases in Fund Resources:		5,125,992	806,185	114,694	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,217,546	129,807	24,800	-
591-593, 599	Debt Service	2,177,561	6,548	-	-
597	Transfers-Out	1,778,916	259,800	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	177,313	144,965	-	-
581	Other Uses	30,225	30,225	-	-
Total Other Decreases in Fund Resources:		6,381,561	571,345	24,800	-
Increase (Decrease) in Cash and Investments:		5,616,248	197,550	(12,128)	979,609
Ending Cash and Investments					
5081000	Reserved	20,772,936	165,227	43,590	1,040,556
5088000	Unreserved	10,485,443	1,979,916	-	-
Total Ending Cash and Investments		31,258,379	2,145,143	43,590	1,040,556

The accompanying notes are an integral part of this statement.

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		111 Criminal Justice Fund	113 Craig Rd & SR 2 Impact Fee Fd	137 Landfill Closure Reserve Fund	155 Hotel/Motel Special Tax
Beginning Cash and Investments					
30810	Reserved	140,626	166,617	321,531	377,856
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	156,866	-	-	51,475
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	12,304	-	-	-
340	Charges for Goods and Services	-	378,991	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,925	3,671	6,548	3,004
Total Revenues:		172,095	382,662	6,548	54,479
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	24,211	-	-	-
530	Utilities	-	-	5,896	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	9,408
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		24,211	-	5,896	9,408
Excess (Deficiency) Revenues over Expenditures:		147,884	382,662	652	45,071
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	30,225	-
Total Other Increases in Fund Resources:		-	-	30,225	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	118,078	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	137,301	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		255,379	-	-	-
Increase (Decrease) in Cash and Investments:		(107,495)	382,662	30,877	45,071
Ending Cash and Investments					
5081000	Reserved	33,130	549,279	352,408	422,927
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		33,130	549,279	352,408	422,927

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		160 Casino Impact Reserve Fund	201 Sewer G.O. Bond "97" Debt Fund	205 Aquatic And Fitness Center Debt Service	301 Capital Improvement Fund
Beginning Cash and Investments					
30810	Reserved	84,750	6,833	-	496,401
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	1,659	825,938	98,209
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	375,122	62	1,876	4,117
Total Revenues:		375,122	1,721	827,814	102,327
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		375,122	1,721	827,814	102,326
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	127	373,442	-
597	Transfers-Out	374,244	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		374,244	127	373,442	-
Increase (Decrease) in Cash and Investments:		878	1,594	454,372	102,326
Ending Cash and Investments					
5081000	Reserved	85,629	8,427	454,372	598,728
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		85,629	8,427	454,372	598,728

City of Airway Heights
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		305 Special Capital Projects Fd	310 Capital Projects Fund	315 Aquatic And Fitness Center Construction	401 Water/Sewer Fund
Beginning Cash and Investments					
30810	Reserved	465,235	25,271	9,875,395	3,477,043
30880	Unreserved	-	-	-	8,140,315
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	98,209	-	-	-
320	Licenses and Permits	-	-	-	2,825
330	Intergovernmental Revenues	-	1,972,981	-	-
340	Charges for Goods and Services	-	-	-	4,649,156
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,883	2,289	73,970	1,584,644
Total Revenues:		102,092	1,975,270	73,970	6,236,625
Expenditures					
510	General Government	-	-	-	1,361
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	3,349,458
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	888,871	-
Total Expenditures:		-	-	888,871	3,350,819
Excess (Deficiency) Revenues over Expenditures:		102,092	1,975,270	(814,901)	2,885,806
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	3,114,372	-
397	Transfers-In	-	-	-	1,007,571
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	45,325
381, 395, 398	Other Resources	-	-	-	7,621
Total Other Increases in Fund Resources:		-	-	3,114,372	1,060,517
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,580,785	31,900	332,176
591-593, 599	Debt Service	-	-	6,500	1,790,944
597	Transfers-Out	-	-	-	1,007,571
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	32,349
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	1,580,785	38,400	3,163,039
Increase (Decrease) in Cash and Investments:		102,092	394,485	2,261,071	783,284
Ending Cash and Investments					
5081000	Reserved	567,328	419,757	12,136,465	3,895,115
5088000	Unreserved	-	-	-	8,505,527
Total Ending Cash and Investments		567,328	419,757	12,136,465	12,400,642

City of Airway Heights
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

	Agency
308 Beginning Cash and Investments	1,205,912
388 & 588 Prior Period Adjustment, Net	-
310-390 Additions	516,397
510-590 Deductions	486,691
Net Increase (Decrease) in Cash and Investments:	29,706
508 Ending Cash and Investments	1,235,618

The accompanying notes are an integral part of this statement.

City of Airway Heights
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

	Agency
308	Beginning Cash and Investments
388 & 588	Prior Period Adjustment, Net
310-390	Additions
510-590	Deductions
	Net Increase (Decrease) in Cash and Investments:
508	Ending Cash and Investments

913,611

-

469,077

176,776

292,302

1,205,912

The accompanying notes are an integral part of this statement.

**City of Airway Heights
Notes to the Financial Statements
For the Year Ended December 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Airway Heights (the City) was incorporated in April 1955 and operates under the laws of the State of Washington applicable to a non charter code city with a Council-Manager form of government. Effective January 1, 2002 the qualified electors of the City abandoned the Council-Mayor form of government under 35A.12 RCW and adopted the Council-Manager form of government under 35A.13 RCW. The City is a general purpose government and provides police and fire services, street maintenance and improvements, parks and recreation, health and social services, and general administrative services. In addition, the City owns and operates its own water system and sewer collection and treatment system. Garbage services for local residents are provided by a private contractor. The City Council created the Airway Heights Transportation Benefit District in 2013. It is included as a blended component unit in the financial statements. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

The City reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

For purposes of financial reporting the following funds have been “rolled” into and combined with the Current Expense fund (001):

<u>Fund No.</u>	<u>Fund</u>
001	Current Expense
105	Fire Equipment Reserve
106	Police Reserve
107	Finance Reserve
109	Executive Reserve
151	Community Services
157	Admissions Tax Special
163	Kalispel Impact Mitigation

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

For purposes of financial reporting the following funds have been “rolled” into and combined with the Street fund (101):

<u>Fund No.</u>	<u>Fund</u>
101	Street Fund
103	Street Reserve Fund

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

For purposes of financial reporting the following funds have been “rolled” into and combined with the Water/Sewer Fund (401):

<u>Fund No.</u>	<u>Fund</u>
401	Water/Sewer
402	Water Equipment Reserve
407	Water/Sewer Capital Development
409	Short-Lived Asset Reserve
412	Water/Sewer Bond Debt Reserve
413	Water/Sewer Bond Debt USDA Reserve
420	Water/Sewer Debt Service
422	Sewer Capacity Reserve
423	Wastewater Debt Sinking
425	Utility Deposit

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for assets the government holds for others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

(see Note 3, *Deposits and Investments*)

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the City are recorded as expenditures when purchased.

E. Compensated Absences

Vacation Accrual:

Permanent employees other than Public Safety Guild employees are credited monthly with the following rates of vacation leave:

<u>Length of Service</u>	<u>Accrual Rate Per Month</u>
1-4 years	8 hours
5-10 years	10 hours
11-15 years	12 hours
16+ years	14 hours

Vacation leave may be accumulated up to 288 hours and is payable upon separation or retirement.

Public Safety Guild employees are credited monthly with the following rates of vacation leave:

<u>Length of Service</u>	<u>Accrual Rate Per Month</u>
1-4 years	8 hours
5-10 years	11 hours
11-15 years	13 hours
16+ years	15 hours

Maximum accrual will not exceed two times the annual allowance plus forty (40) hours and is payable upon separation or retirement.

Sick Leave Accrual:

Permanent employees other than Public Safety Guild employees accrue sick leave at the rate of 8 hours of leave for each month of continuous full-time service. Sick leave may be accumulated up to 960 hours. At the time of retirement of a regular full time employee, an employee with ten years of continuous service shall be compensated for 50% of up to 960 hours of their unused sick leave accrual. An employee with less than twenty (20) years of continuous service but more than ten (10) years of continuous service shall be compensated 75% of up to 960 hours of their unused sick leave accrual. An employee with more than twenty years of continuous service shall be compensated for up to 100% of their accumulated unused sick leave up to 960 hours.

Public Safety Guild employees are credited monthly with 10 hours per month. Any accrued sick leave which is unused in any year may be accumulated for succeeding years up to a maximum of 960 hours. One-half of the employee's accumulated sick leave up to a maximum of 960 hours will be paid in the form of cash if the employee has ten (10) or more continuous years of service with the City. Employees with twenty (20) or more years of continuous service with the City shall be paid 100% up to a maximum of 960 hours of accumulated sick leave upon separation of service.

Separating employees are paid out based on their contract with the City.

Compensated absence balances for vacation, sick leave and compensatory time are reported in Note 7, Debt Service Requirements.

F. Long-Term Debt

See Note 7, *Debt Service Requirements*.

G. Reserved Portion of Ending Cash and Investments

Beginning and ending cash and investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reserved Fund Balances are reported in the following funds at December 31, 2018:

<u>Fund</u>	<u>Reserve For</u>	<u>Amount</u>
Current Expense Fund	Change Funds, Deposits, Court Trust	\$ -
Street Fund	Maintenance, Operating & Capital Outlay	309,587
Park Reserve Fund	Impact Fees	238,120
Criminal Justice Fund	Criminal Justice funding	55,457
Craig Rd & SR 2 Impact Fee Fund	Impact Fees	558,738
Landfill Closure Reserve Fund	Solid Waste purposes	388,395
Hotel-Motel Tax Fund	Tourism Promotion & Facilities	474,503
Casino Impact Reserve Fund	Allocation to the Current Exp Fund	86,958
Sewer GO Bond Debt Fund	Debt Service	8,544
Capital Improvement Fund	Capital Facilities	33,652
Special Capital Projects Fund	Capital Facilities	33,861
Capital Projects Fund	Capital Projects	119,591
Aquatic & Fitness Center Cons Fund	Aquatic and Recreation Center	4,707,550
Water-Sewer Fund	Debt Service and Construction	4,185,057
Transportation Benefit District	Street Purposes	1,235,618
Total		<u>\$ 12,435,631</u>

NOTE 2 – BUDGET COMPLIANCE

A. Budgets

The City adopts annual appropriated budgets for the current expense, special revenue, debt service, capital projects, enterprise, and custodial funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
001 Current Expense Fund	\$ 8,982,764	\$ 8,858,286	\$ 124,478
105 Fire Equipment Reserve Fund	-	-	-
106 Police Reserve Fund	-	-	-
107 Finance Reserve Fund	80,000	80,000	-
109 Executive Reserve Fund	58,917	64,445	(5,528)
157 Admissions Tax Special Fund	202,959	207,038	(4,079)
163 Kalispel Impact Mitigation Fd	222,800	221,869	931
	<u>9,547,440</u>	<u>9,431,638</u>	<u>115,802</u>
Street Fund:			
101 Street Fund	624,842	456,890	167,952
103 Street Reserve Fund	-	-	-
	<u>624,842</u>	<u>456,890</u>	<u>167,952</u>
Water/Sewer Fund:			
401 Water/Sewer Fund	6,301,056	6,157,865	143,191
402 Water Equipment Reserve	-	-	-
407 Water/Sewer Capital Dev. Fund	999,400	1,828,225	(828,825)
409 Short-Lived Asset Reserve Fund	80,000	80,000	-
412 Water-Sewer Bond Debt Reserve	-	-	-
413 Water-Sewer Bond Debt USDA	-	-	-
420 Water-Sewer Debt Service Fund	1,793,361	1,793,355	6
422 Sewer Capacity Reserve Fund	-	-	-
423 Wastewater Debt Sinking Fund	1,700,000	500,000	1,200,000
601 Utility Deposit Fund	40,000	32,562	7,438
	<u>10,913,817</u>	<u>10,392,006</u>	<u>521,811</u>
104 Park Reserve Fund	300,000	1,142,005	(842,005)
111 Criminal Justice Fund	160,000	160,000	-
113 Craig Rd & SR 2 Impact Fee Fd	269,600	9,682	259,918
137 Landfill Closure Reserve Fund	5,000	3,126	1,874
151 Community Services Fund	-	-	-
155 Hotel/Motel Special Tax	11,000	11,000	-
160 Casino Impact Reserve Fund	374,250	374,250	-
201 Sewer G.O. Bond "97" Debt Fund	-	-	-
205 Aquatic & Fitness Center Debt	1,078,000	1,078,000	-
301 Capital Improvement Fd-REET	729,000	729,000	-
305 Special Capital Projects Fd-REET	697,000	697,000	-
310 Capital Projects Fund	330,074	1,764,920	(1,434,846)
315 Aquatic & Fitness Center Constr.	9,880,496	10,114,300	(233,804)
695 Transportation Benefit District	576,000	486,691	89,309
Total of All Funds	<u>\$ 35,496,519</u>	<u>\$ 36,850,509</u>	<u>\$ (1,353,990)</u>

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Airway Heights City Council. The negative variance between appropriated budget and the actual expense in 2018 of \$1,353,990 is primarily due to the significant completion of the Aquatic and Recreation center during the budget year.

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the City’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are either insured, registered, or held by the City or its agent in the City’s name.

Investments are reported at cost.

Investments by type at December 31, 2018 are as follows:

<u>Type of Investment</u>	<u>Amount</u>
Local Government Investment Pool	\$ 15,886,635
Certificates of Deposit	395,672
U.S. Government Securities – U.S. Bank Safekeeping	5,483,454
Total	<u>\$ 21,765,760</u>

The Local Government Investment Pool (LGIP) is a short-term investment pool available to Washington State counties, cities, towns, municipal corporations, and other special purpose taxing districts and entities. The City considers the amounts in the LGIP external investment pool as investments. The U. S. Government Securities are held in safekeeping at U. S. Bank.

At December 31, 2018, the City was holding \$2,090,538 in short term residual investments of surplus cash. This amount is included in the Ending Net Cash and Investments shown on the Statements of Fund Resources and Uses Arising from Cash Transactions. The interest on these investments is prorated to the various funds.

NOTE 4 – PROPERTY TAX

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

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

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectable because a lien affixes to the property after taxes are levied. The City's regular levy for 2018 was \$2.096767 per \$1,000 on an assessed valuation of \$584,795,101 for a total regular levy of \$1,226,179. An additional \$742,648 was levied for outstanding voted annual general obligation principal and interest payments. An additional \$136,565 was levied for the EMS Levy. The total for all 2018 levies was \$2,105,392.

NOTE 5 – INTERFUND TRANSACTIONS AND TRANSFERS

Transfers in and out of individual funds for the year ended December 31, 2018 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Current Expense	\$ 801,555	\$ 216,359
Special Revenue:		
Street	137,700	-
Park Reserve	-	1,142,005
Criminal Justice	-	160,000
Casino Impact	-	374,250
Aquatic & Fitness Center Construction	2,379,359	-
Capital Improvement - REET	-	1,426,000
	<u>2,517,059</u>	<u>3,102,255</u>
Total all funds	<u>\$ 3,318,614</u>	<u>\$ 3,318,614</u>

Interfund transfers for combined managerial funds for the Current Expense fund and the Water/Sewer fund have been eliminated. For the year ended December 31, 2018 interfund transfers eliminated for the Current Expense fund were \$421,349 and for Water/Sewer fund were \$2,457,881.

NOTE 6 – INTERFUND LOANS

The following table displays interfund loan activity during 2018:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance</u> <u>1/1/2018</u>	<u>New Loans</u>	<u>Principal</u> <u>Repayments</u>	<u>Balance</u> <u>12/31/2018</u>
Current Expense	Lanfill Closure	\$ 133,482	\$ -	\$ 31,434	\$ 102,048
		<u>\$ 133,482</u>	<u>\$ -</u>	<u>\$ 31,434</u>	<u>\$ 102,048</u>

Resolution 2011-005 authorized an interfund loan from the Landfill Closure Reserve fund to the Current Expense fund for \$298,263 to pay for the portion of the property purchased from the Water/Sewer fund to be used for governmental purposes. The loan shall be paid back in annual principal and interest payments of \$36,773 with the final maturity April 1, 2021. Interest is charged on the loan at 4% per annum. Resolution 2011-032 changed the due dates for the annual debt service payments to December 1 of each year with final maturity on December 1, 2021.

NOTE 7 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2018.

The debt service requirements for General Obligation Bonds, Revenue Bonds, Lease Purchase Agreements, and Intergovernmental loans are as follows:

	Principal	Interest	Total
2019	\$ 1,525,078	\$ 966,103	\$ 2,491,181
2020	1,550,127	932,865	2,482,992
2021	1,576,314	898,488	2,474,802
2022	1,452,115	863,506	2,315,621
2023	1,484,721	830,682	2,315,403
2024-2028	7,540,877	3,611,941	11,152,818
2029-2033	5,498,069	2,590,879	8,088,948
2034-2038	3,759,071	1,760,860	5,519,931
2039-2043	3,351,303	1,039,859	4,391,162
2044-2048	2,609,114	353,036	2,962,150
2049-2053	729,316	71,946	801,262
Total	<u>\$ 31,076,105</u>	<u>\$ 13,920,165</u>	<u>\$ 44,996,270</u>

The following is a summary of changes in long-term liabilities for the City for the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018
General Debt:				
UTGO Bonds, 2017	\$ 3,114,372	\$ -	\$ (621,715)	\$ 2,492,657
UTGO Bonds, 2016	9,515,000	-	-	9,515,000
	<u>12,629,372</u>	<u>-</u>	<u>(621,715)</u>	<u>12,007,657</u>
Revenue Debt:				
PWTF Loan (PW-01)	623,967	-	(155,992)	467,975
PWTF Loan (PW-07)	3,927,778	-	(392,778)	3,535,000
Dept of Commerce Loan (PC12)	590,030	-	(42,145)	547,885
Dept of Ecology (DOE) Loan	691,114	-	(53,561)	637,553
DOE Loan ARRA Loan	7,869,894	-	(443,117)	7,426,777
DOE State Revolv L0900008	137,235	-	(7,726)	129,509
DOE State Revolv STEP Loan	266,108	-	(15,858)	250,250
Water/Sewer Rev Bond 2013A	2,950,000	-	(100,000)	2,850,000
Water/Sewer Rev Bond 2013B	3,269,932	-	(46,433)	3,223,499
	<u>20,326,058</u>	<u>-</u>	<u>(1,257,610)</u>	<u>19,068,448</u>
Total	<u>\$ 32,955,430</u>	<u>\$ -</u>	<u>\$ (1,879,325)</u>	<u>\$ 31,076,105</u>

A. General Obligation Bonds

Unlimited Tax General Obligation Bonds, Series 2017, dated December 26, 2017, issued in the principal amount of \$3,114,372, outstanding in the principal amount of \$2,492,657; final payment due December 1, 2027, remaining annual installments of principal and interest of \$2,885,610; remaining interest rates range from 2.508% to 3.04%; debt service paid from general property taxes levied for debt service.

The annual requirements to amortize this general obligation bonded debt outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 250,461	\$ 76,829	\$ 327,290
2020	257,991	69,299	327,290
2021	266,132	61,158	327,290
2022	274,335	52,955	327,290
2023	282,791	44,499	327,290
2024-2027	1,160,947	88,213	1,249,160
Total	<u>\$ 2,492,657</u>	<u>\$ 392,953</u>	<u>\$ 2,885,610</u>

Unlimited Tax General Obligation Bonds, Series 2016, dated December 6, 2016, issued in the principal amount of \$9,515,000, outstanding in the principal amount of \$9,515,000; final payment due December 1, 2046, remaining annual installments of principal and interest of \$17,119,813; remaining interest rates ranging of 3.75% to 4.25%; debt service paid from general property taxes levied for debt service.

The annual requirements to amortize this general obligation bonded debt outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ -	\$ 378,225	\$ 378,225
2020	-	378,225	378,225
2021	-	378,225	378,225
2022	-	378,225	378,225
2023	-	378,225	378,225
2024-2028	405,000	1,888,725	2,293,725
2029-2033	1,925,000	1,662,125	3,587,125
2034-2038	2,355,000	1,244,325	3,599,325
2039-2043	2,835,000	753,763	3,588,763
2044-2048	1,995,000	164,750	2,159,750
Total	<u>\$ 9,515,000</u>	<u>\$ 7,604,813</u>	<u>\$ 17,119,813</u>

C. Compensated Absences – Government Debt

Compensated absences for government funds consist of Vacation Leave, Sick Leave, and Compensatory Time Leave Payable at December 31, 2018 in accordance with the City's leave policies.

Compensated Absences \$ 575,159

D. Public Works Trust Fund and Department of Commerce Loans

The City has two intergovernmental loans from the Public Works Trust Fund Board and one from the Department of Commerce. The loans are funded as part of the Public Works Trust Fund under the authority of RCW 43.115 to provide for local public works projects.

Public Works Trust Fund Loan, PW-01-691-002: Total issued amount of \$2,911,846; outstanding in the principal amount of \$467,976; for water system improvements; final payment due June 1, 2021; remaining annual installments of principal and interest ranging from \$159,112 to \$165,351; interest rate of 2.0%; debt service paid from revenues of the Water/Sewer fund.

The loan agreement provides for interest at 2% per annum on the outstanding balance. After the first loan payment, subsequent repayments are due July 1 of each year and will consist of 1/19th of the outstanding principal plus interest on the unpaid balance of the loan.

The annual requirements to amortize the Public Works Trust Fund loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 155,992	\$ 9,359	\$ 165,351
2020	155,992	6,240	\$ 162,232
2021	155,992	3,120	\$ 159,112
Total	<u>\$ 467,976</u>	<u>\$ 18,719</u>	<u>\$ 486,695</u>

Public Works Trust Fund Loan, PW-07-962-001: Total authorized amount of \$7,000,000; outstanding in the principal amount of \$3,535,000; for sewer system improvements; final payment due July 1, 2027; remaining annual installments of principal and interest ranging from \$394,742 to \$410,453; interest rate of 1/2%; debt service paid from revenues of the Water/Sewer fund.

The loan agreement provides for interest at 1/2% per annum on the outstanding balance. After the first loan payment, subsequent repayments are due July 1 of each year and will consist of 1/19th of the outstanding principal plus interest on the unpaid balance of the loan.

The annual requirements to amortize the Public Works Trust Fund loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 392,778	\$ 17,675	\$ 410,453
2020	392,778	15,711	408,489
2021	392,778	13,747	406,525
2022	392,778	11,783	404,561
2023	392,778	9,819	402,597
2024-2027	1,571,110	19,640	1,590,750
Total	<u>\$ 3,535,000</u>	<u>\$ 88,375</u>	<u>\$ 3,623,375</u>

Department of Commerce Loan, PC12-951-002: Total authorized amount of \$758,610; outstanding in the principal amount of \$547,885; for sewer system improvements; final payment due June 1, 2031; remaining annual installments of principal and interest ranging from \$42,250 to \$43,515; interest rate of .25%; debt service paid from revenues of the Water/Sewer fund.

The loan agreement provides for interest at .25% per annum on the outstanding balance. Loan payment installments are due on June 1st of each year during the 20-year fixed term of the loan. The amortization schedule changed on this loan due to the project being finished early. The interest rate was reduced from 1% to .25% for the rest of the loan period resulting in reduced interest payments.

The annual requirements to amortize the Department of Commerce loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 42,145	\$ 1,370	\$ 43,515
2020	42,145	1,264	43,409
2021	42,145	1,159	43,304
2022	42,145	1,054	43,199
2023	42,145	948	43,093
2024-2028	210,725	3,161	213,886
2029-2032	126,435	632	127,067
Total	<u>\$ 547,885</u>	<u>\$ 9,588</u>	<u>\$ 557,473</u>

D. Department of Ecology Loans

The City has four intergovernmental Washington State Water Pollution Control Revolving Fund Loans from the Department of Ecology.

Department of Ecology Loan, L0700021: Total issued amount of \$1,074,159; outstanding in the principal amount of \$637,551; for sewer system improvements; final payment due December 31, 2028; remaining annual installments of principal and interest of \$74,710; interest rate of 3.1%; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 55,245	\$ 19,465	\$ 74,710
2020	56,982	17,728	74,710
2021	58,774	15,936	74,710
2022	60,622	14,088	74,710
2023	62,528	12,181	74,709
2024-2028	343,400	30,149	373,549
Total	<u>\$ 637,551</u>	<u>\$ 109,547</u>	<u>\$ 747,098</u>

Department of Ecology Loan, L0900007: Total authorized amount of \$9,951,629 comprised of two elements: Recovery Act Loan and Recovery Act Green Project Reserve Loan for sewer system improvements. The principal amount outstanding at December 31, 2018 is \$7,426,777. The first principal and interest payment was due June 1, 2013; interest rate of 2.9%; last debt service payment due June 1, 2032; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 456,139	\$ 213,379	\$ 669,518
2020	469,544	199,974	669,518
2021	483,344	186,175	669,519
2022	497,549	171,970	669,519
2023	512,171	157,347	669,518
2024-2028	2,795,679	551,913	3,347,592
2029-2032	2,212,351	130,963	2,343,314
Total	<u>\$ 7,426,777</u>	<u>\$ 1,611,721</u>	<u>\$ 9,038,498</u>

Department of Ecology State Base Revolving Loan, L00900008: Total issued amount of \$173,537; outstanding in the principal amount of \$129,509; for sewer system improvements; final payment due June 1, 2032; remaining annual installments of principal and interest of \$11,675; interest rate of 2.9%; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 7,954	\$ 3,721	\$ 11,675
2020	8,188	3,487	11,675
2021	8,429	3,246	11,675
2022	8,676	2,999	11,675
2023	8,931	2,744	11,675
2024-2028	48,751	9,624	58,375
2029-2032	38,580	2,284	40,864
Total	<u>\$ 129,509</u>	<u>\$ 28,105</u>	<u>\$ 157,614</u>

Department of Ecology Loan, L1100011: Total issued amount of \$344,570; outstanding in the principal amount of \$250,250; for sewer system improvements; final payment due November 30, 2031; remaining annual installments of principal and interest of \$22,976; interest rate of 2.7%; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 16,291	\$ 6,685	\$ 22,976
2020	16,736	6,240	22,976
2021	17,194	5,782	22,976
2022	17,664	5,312	22,976
2023	18,147	4,829	22,976
2024-2028	98,451	16,429	114,880
2029-2032	65,767	3,160	68,927
Total	<u>\$ 250,250</u>	<u>\$ 48,437</u>	<u>\$ 298,687</u>

E. Water and Sewer Revenue Bonds

Water-Sewer Revenue Bonds, Series 2013 A: Total issued amount of \$3,290,000; outstanding in the principal amount of \$2,850,000; for sewer system improvements; final payment due December 1, 2038; remaining annual installments of principal and interest of ranging from \$225,750 to \$226,988; interest rates ranging from 2.0% to 5.0%; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Water-Sewer Revenue Bonds, Series 2013 A as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 100,000	\$ 126,988	\$ 226,988
2020	100,000	123,987	223,987
2021	100,000	120,988	220,988
2022	105,000	117,988	222,988
2023	110,000	114,837	224,837
2024-2028	600,000	508,500	1,108,500
2029-2033	765,000	354,250	1,119,250
2034-2038	970,000	148,206	1,118,206
Total	<u>\$ 2,850,000</u>	<u>\$ 1,615,744</u>	<u>\$ 4,465,744</u>

Water-Sewer Revenue Bonds, Series 2013 B: Total issued amount of \$3,400,000; outstanding in the principal amount of \$3,223,499; for Sewer system improvements; final payment due November 20, 2053; remaining semi-annual installments of principal and interest of \$160,480; interest rate of 3.5%; debt service paid from revenues of the Water/Sewer fund.

The annual requirements to amortize the Water-Sewer Revenue Bonds, Series 2013 B as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 48,073	\$ 112,407	\$ 160,480
2020	49,770	110,710	160,480
2021	51,527	108,953	160,480
2022	53,346	107,134	160,480
2023	55,230	105,250	160,480
2024-2028	306,812	495,588	802,400
2029-2033	364,936	437,464	802,400
2034-2038	434,071	368,329	802,400
2039-2043	516,303	286,097	802,400
2044-2048	614,114	188,286	802,400
2049-2053	729,317	71,946	801,263
Total	<u>\$ 3,223,499</u>	<u>\$ 2,392,164</u>	<u>\$ 5,615,663</u>

F. Legal Debt Margin

The assessed valuation of the City for 2018 for purposes of determining the legal debt margin is \$584,795,101. Under State of Washington law statutes general obligation indebtedness pursuant to a vote of the electorate is limited to 2½% of actual value of taxable property located within the City. Indebtedness without a vote of the people is limited to 1½% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2½% of total assessed valuation. There is a 2½% limitation each for utility purposes and open space, park, and capital facilities purposes.

The remaining debt capacities of the City are as follows:

General Purposes Voted and Non-Voted Debt - 2.5% (1)	\$ 14,619,878
Utility Voted Debt - 2.5%	14,619,878
Open Space, Park and Capital Facility Purposes - 2.5%	<u>2,612,221</u>
Total Remaining Debt Capacity - All Categories	<u><u>\$ 31,851,976</u></u>

(1) Includes \$8,771,927 debt capacity available for non-voted debt.

NOTE 8 – CONTRACTS PAYABLE

Capital Surcharge:

The City entered into an agreement with the City of Spokane to purchase 680,000 gallons per day of sewage treatment capacity for \$2,040,000. In 1993, the Washington State Department of Corrections became a party to the contract assuming \$1,200,000 of the debt. The City's share of this amount is to be paid over 19 years. The City receives credit against the balance for the sewer surcharge paid to the City of Spokane. The contract is open for review every five years.

One component part, similar to interest on unpaid principal amounts, is to be calculated at 5% per year, in lieu of specific indexing.

Scheduled amounts, which have been based on projected flows, are to be reviewed every fifth year and then adjusted against actual measured flows.

The following chart provides the financial history of the City's portion of this capital surcharge agreement:

Date	Descriptions	Transactions		Balance
		Additions	Reductions	
6/30/1992	Agreement signed	\$ 840,000	\$ -	\$ 840,000
12/31/1993	Interest @ 5% accrued	21,000	-	
	Payment	-	(4,261)	856,739
12/31/1994	Interest @ 5% accrued	42,881	-	
	Payment	-	(5,681)	893,939
12/31/1995	Interest @ 5% accrued	44,619	-	
	Payment	-	(18,976)	919,582
12/31/1996	Interest @ 5% accrued	45,760	-	
	Payment	-	(43,980)	921,362
12/31/1997	Interest @ 5% accrued	46,001	-	
	Payment	-	(62,697)	904,666
12/31/1998	Interest @ 5% accrued	45,329	-	
	Payment	-	(239,977)	710,018
12/31/1999	Interest @ 5% accrued	39,587	-	
	Payment	-	(79,308)	670,297
12/31/2000	Interest @ 5% accrued	33,157	-	
	Payment	-	(102,117)	601,337
12/31/2001	Interest @ 5% accrued	30,113	-	
	Payment	-	(99,289)	532,161
12/31/2002	Interest @ 5% accrued	26,341	-	
	Payment	-	(137,425)	421,077
12/31/2003	Interest @ 5% accrued	21,135	-	
	Payment	-	(132,228)	309,984
12/31/2004	Interest @ 5% accrued	15,511	-	
	Payment	-	(132,798)	192,697
12/31/2005	Interest @ 5% accrued	10,263	-	
	Payment	-	(122,256)	80,704
12/31/2006	Interest @ 5% accrued	4,347	-	
	Payment	-	(168,988)	(83,937)
12/31/2006	Balance			\$ (83,937)

The City of Spokane overbilled the Sewer Capital Charge to the City in 2006 by \$83,937. At December 31, 2018 the City was due a refund of \$83,937 for Capital Charge and \$40,076 of interest for a total of \$124,013.

NOTE 9 -- PENSION PLANS

A. State Sponsored Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS and LEOFF).

The State Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

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

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

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

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. 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.

At June 30, 2018 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

<u>Plan</u>	<u>Allocation %</u>	<u>Liability (Asset)</u>
PERS1	0.00014766	\$ 659,455
PERS 2/3	0.00019041	325,108
Total	(Schedule 9)	<u>\$ 984,563</u>
LEOFF 2	0.05293	\$ (1,074,594)
VFFRPF	0.07	(38,685)
Total	(Not on Schedule 9)	<u>\$ (1,113,279)</u>

NOTE 10 -- RISK MANAGEMENT

The City is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, approximately 100 municipalities/entities participate in the AWC RMSA pool (the Pool).

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverage is on an occurrence basis. The AWC RMSA provides all risk, property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier. Fidelity (crime) coverage and pollution liability coverage are stand-alone policies which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered losses against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA has a Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. There is \$9 million in excess liability coverage limits provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company. In 2018 the AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's broker of record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. After termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

NOTE 11 -- AIRWAY HEIGHTS TRANSPORTATION BENEFIT DISTRICT

The Airway Heights City Council created the Airway Heights Transportation Benefit District (reported as a blended component unit) as a quasi-municipal corporation, an independent taxing district, by ordinance C-793 on April 15, 2013. The District was created under the authority provided by RCW 35.21. The District is a governmental special-purpose entity governed by a Board of Directors, created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District.

The seven-member Board is composed of the seven members of the Airway Heights City Council acting in an ex officio and independent capacity, which has the authority to exercise the statutory powers set forth in chapter 36.73 RCW. The Chair of the Board is the Mayor of the City; the Secretary of the Board is the City Manager; and the Treasurer of the District is the City Clerk-Treasurer.

A ballot measure was proposed and approved in November 2013 to authorize a sales tax of two-tenths of one percent (0.2%) to be collected in the District, effective April 1, 2014. Collections of these revenues directly from the State started in 2014. In 2018, sales tax received by the District was \$499,706.

The boundaries of the District are identical with those of the City. The District operates under the laws of the State of Washington applicable to a Transportation Benefit District. The District uses cash basis accounting which is a departure from generally accepted accounting principles (GAAP). The District is included in the City's financial statements for 2018 as a blended component unit.

NOTE 12 -- OTHER DISCLOSURES

A. Legal Matters

In the normal course of governmental operations the City has claims filed against it for various losses related to actions such as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. The collective impact of these claims is not likely to have a material impact on the City's financial position. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims.

B. Federal and State Programs

The City participates in a number of federal and state assisted programs which provide grants to support City initiatives. These grants are subject to audit by the grantors or their representatives. While the City does not anticipate such an outcome, audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants.

C. Other

In May 2017, the City was advised by Fairchild Air Force Base (FAFB) that its water may be contaminated by PFOS/PFOA firefighting chemicals. Through water testing, the City confirmed that several wells were contaminated. Consequently there have been some claims filed against the City. The City and FAFB are working through these water issues to identify the sources of the contamination and to reach a solution. As of December 31, 2018, the number and cost of all possible claims are unknown.

City of Airway Heights
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1- Summary of Significant Accounting Policies

The City of Airway Heights was incorporated in April 1955 and operates under the laws of the State of Washington applicable to a non charter code city with a Council-Manager form of government. Effective January 1, 2002 the qualified electors of the City of Airway Heights abandoned the Council-Mayor form of government under 35A.12 RCW and adopted the Council-Manager form of government under 35A.13 RCW. The city is a general purpose local government and provides police and fire services, street maintenance and improvements, parks and recreation, health and social services, and general administrative services. In addition, the City owns and operates its own water system and sewer collection and treatment system. Garbage services for local residents are provided by a private contractor. The City Council created the Airway Heights Transportation Benefit District in 2013. It is included as a blended component unit in the financial statements. The City of Airway Heights uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

The city reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

For purposes of financial reporting the following funds have been "rolled" into and combined with the Current Expense fund (001):

Fund No.	<u>Fund</u>
001	Current Expense
105	Fire Equipment Reserve
106	Police Reserve
107	Finance Reserve
109	Executive Reserve
151	Community Services
157	Admissions Tax Special
163	Kalispel Impact Mitigation

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

For purposes of financial reporting the following funds have been "rolled" into and combined with the Street fund (101):

Fund No.	<u>Fund</u>
101	Street
103	Street Reserve

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

For purposes of financial reporting the following funds have been "rolled" into and combined with the Water/Sewer fund (401):

Fund No.	<u>Fund</u>
401	Water-Sewer
402	Water Equipment Reserve
407	Water Sewer Capital Development
409	Short-lived Asset Reserve
412	Water-Sewer Bond Debt Reserve
413	Water-Sewer Bond Debt USDA Reserve
420	Water-Sewer Debt Service
422	Sewer Capacity Reserve
423	Wastewater Debt Sinking
425	Utility Deposit

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the city also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The city adopts annual appropriated budgets for the current expense, special revenue, debt service, capital projects, enterprise, internal service, and agency funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$7,635,612	\$7,358,129	\$277,483
Fire Equipment Reserve	\$13,125	\$13,124	\$1

Police Reserve Fund	\$0	\$0	\$0
Finance Reserve Fund	\$40,000	\$0	\$40,000
Executive Reserve Fund	\$175,347	\$77,257	\$98,090
Admissions Tax Special	\$112,916	\$106,335	\$6,581
Kalispel Impact Mitigation	\$412,155	\$272,579	\$139,576
Total General Fund	\$8,389,155	\$7,827,424	\$561,731
Street	\$610,186	\$489,455	\$120,731
Street Reserve	\$0	\$0	\$0
Total Street Funds	\$610,186	\$489,455	\$120,731
Park Reserve	\$0	\$0	\$0
Criminal Justice	\$279,601	\$279,590	\$11
Landfill Closure Reserve	\$6,000	\$5,896	\$104
Hotel/Motel Special Tax	\$9,500	\$9,408	92
Casino Impact Reserve	\$374,250	\$374,244	\$6
Sewer G 0 Bond Debt	\$127	\$127	\$0
Aquatic & Fitness Cntr	\$681,949	\$373,442	\$308,507
Capital Improvement	\$0	\$0	\$0
Special Capital Projects	\$0	\$0,	\$0
Capital Projects Fund	\$1,980,074	\$1,580,785	\$399,289
Aquatic & Fitness Const.	\$9,972,690	\$927,271	\$9,045,419
Water & Sewer Combined:			
Water-Sewer Fund	\$5,502,918	\$5,151,869	\$3 5 1 ,049
Water Equipment Reserve	\$0	\$0	\$0
Water-Sewer Capital Dev.	\$958,000	\$403,691	\$554,309
Short-Lived Asset Reserve	\$80,000	\$43,567	\$36,433
Water-Sewer Debt Service	\$1,790,949	\$1,790,944	\$5
Wastewater Debt Sinking	\$500,000	\$500,000	\$0
Utility Deposit	\$45,000	\$32,349	\$12,651
Total Water-Sewer	\$8,876,867	\$7,922,420	\$954,447
Total All Funds	\$31,180,399	\$19,790,062	\$11,390,337

In accordance with the Airway Heights Municipal Code, Chapter 2.10, the City Manager is authorized to transfer budgeted amounts between departments within any fund/object classes within departments, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Airway Height's City Council.

The City of Airway Heights budget procedures are mandated by RCW, Chapters 35A.33. The steps in the budget process are as follows:

1. Prior to November 1, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates.
2. The Council conducts public hearings on the proposed budget in November and December.

3. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
4. Within 30 days of adoption, the final budget is available to the public.

D. Cash and Investments

See Note 2, Deposits *and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation Accrual:

Permanent employees other than Public Safety Guild employees are credited monthly with the following rates of vacation leave:

Length of Service	Accrual Rate Per Month
1-4 years	8 hours
5-10 years	10 hours
11-15 years	12 hours
16+ years	14 hours

Vacation leave may be accumulated up to 288 hours and is payable upon separation or retirement.

Public Safety Guild employees are credited monthly with the following rates of vacation leave:

Length of Service	Accrual Rate Per Month
1-4 years	8 hours
5-10 years	11 hours
11-15 years	13 hours
16+ years	15 hours

Maximum accrual will not exceed two times the annual allowance plus forty (40) hours and is payable upon separation or retirement.

Sick Leave Accrual:

Permanent employees other than Public Safety Guild employees accrue sick leave at the rate of 8 hours of leave for each month of continuous full-time service. Sick leave may be accumulated up to 960 hours. At the time of retirement of a regular full time employee, an employee with ten years of continuous service shall be compensated for 50% of up to 960 hours of their unused sick leave accrual. An employee with less than twenty (20) years of continuous service but more than ten (10) years of continuous service shall be compensated 75% of up to 960 hours of their unused sick leave accrual. An employee with more than twenty years of continuous service shall be compensated for up to 100% of their accumulated unused sick leave up to 960 hours.

Public Safety Guild employees are credited monthly with 10 hours per month. Any accrued sick leave which is unused in any year may be accumulated for succeeding years up to a maximum of 960 hours. One-half of the employee's accumulated sick leave up to a maximum of 960 hours will be paid in the form of cash if the employee has ten (10) or more continuous years, of service with the City. Employees with twenty (20) or more years of continuous service with the City shall be paid 100% up to a maximum of 960 hours of accumulated sick leave upon separation of service.

Payments to separating employees are paid out based on their contract with the city, they are recognized as expenditures when paid.

Compensated absence balances for vacation, sick leave and compensatory time are reported in Note 6, Debt Service Requirements.

G. Long-Term Debt

See Note 6, *Debt Service Requirements*.

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reserved Fund Balances are reported in the following funds at December 31, 2017:

<u>Fund</u>	<u>Reserve For</u>	<u>Amount</u>
Current Expense Fund	Change Funds, Deposits, Court Trust	\$ 165,227
Street Fund	Maintenance, Oper & Capital Outlay	\$ 43,590
Park Reserve Fund	Impact Fees	\$1,040,556
Criminal Justice Fund	Criminal Justice funding	\$ 33,130
Craig Rd & SR 2	Impact Fee Fund Impact Fees	\$ 549,279
Landfill Closure Reserve Fund	Solid Waste purposes	\$ 352,408
Hotel-Motel Tax Fund	Tourism Promotion & Facilities	\$ 422,927
Casino Impact Reserve Fund	Allocation to the Current Exp Fund	\$ 85,629
Sewer G 0 Bond Debt Fund	Debt Service	\$ 8,427
Recreation Center Debt Fund	Debt Service	\$ 454,371
Capital Improvement Fund	Capital Facilities	\$ 598,727
Special Capital Projects Fund	Capital Facilities	\$ 567,328
Capital Projects Fund	Capital Projects	\$ 419,757
Aquatic & Fitness Center Cons Fund	Aquatic and Recreation Center	\$12,136,465
Water-Sewer Fund	Debt Service and Construction	\$3,895,115
Transportation Benefit District	Street Purposes	<u>\$1,205,912</u>
Total		\$21,978,848

I. Fund Balance Policy

Resolution 2009-021 established a policy on the required level of fund balance reserves in the Current Expense fund. The City Manager will provide an annual recommendation to the City Council to provide for an ending cash/fund balance reserve of 8% in the Current Expense fund for budget planning purposes. For budget planning purposes this calculation shall be based on the actual expenditures for the last completed fiscal year, less any expenditures for capital outlay. For 2017, the City complied with this requirement.

Note 2 — Deposits and Investments

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission). All investments are either insured, registered, or held by the City or its agent in the City of Airway Heights name.

Investments are reported at cost.

Investments by type at December 31, 2017 are as follows:

Type of Investment	City's Own Investments
Local Government Investment Pool	\$23,148,669
Certificates of Deposit	394,495
U S Government Securities — U S Bank Safekeeping	<u>4,984,500</u>
Total	\$28,527,664

The Local Government Investment Pool (LGIP) is a short-term investment pool available to Washington State counties, cities, towns, municipal corporations, and other special purpose taxing districts and entities. The City considers the amounts in the LGIP external investment pool as investments. The U. S. Government Securities are held in safekeeping at U. S. Bank.

At December 31, 2017 the City was holding \$5,661,204 in short term residual investments of surplus cash. This amount is included in the Ending Net Cash and Investments shown on the Statements of Fund Resources and Uses Arising from Cash Transactions. The interest on these investments is prorated and credited to the various funds.

Note 3 - Property Tax

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

Property Tax Calendar

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

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectable because a lien affixes to the property after taxes are levied. The City's regular levy for 2017 was \$2.166075 per \$1,000 on an assessed valuation of \$513,627,217 for a total regular levy of \$1,112,555. An additional \$850,585 was levied for outstanding voted annual general obligation principal and interest payments. An additional \$127,703 was levied for the EMS Levy. The total for all 2017 levies was \$2,090,843.

Note 4 - Interfund Transactions And Transfers

Transfers in and out of individual funds for the year ended December 31, 2017 are as follows:

Fund	Transfers In	Transfers Out
CURRENT EXPENSE	\$ 486,851	\$ 90,000
SPECIAL REVENUE:		
Street	114,694	
Criminal Justice		137,301
Casino Impact		<u>374,244</u>
Total All Funds	<u>\$ 601,545</u>	\$ 601,545

Interfund transfers for combined managerial funds for the Current Expense fund and the Water-Sewer fund have been eliminated. Interfund transfers eliminated for the Current Expense fund were \$169,800 for transfers in and transfers out eliminated were \$169,895 and for Water-Sewer fund were \$1,408,562.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2017:

<u>Borrowing</u> Fund	Lending Fund	Balance New 1/1/2017	Loans Repayments	Balance 12/31/2017
Current Expense	Landfill Closure	\$163,707	\$ 0 \$ 30,225	\$133,482

Resolution 2011-005 authorized an interfund loan from the Landfill Closure Reserve fund to the Current Expense fund for \$298,263 to pay for the portion of the property purchased from the Water-Sewer fund to be used for governmental purposes. The loan shall be paid back in annual principal and interest payments with the final maturity December 1, 2021. Interest is charged on the loan at 4% per annum. Resolution 2011-032 changed the due dates for the annual debt service payments to December 1 of each year. The principal amount of \$30,225 was repaid in 2017.

Note 6 — Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2017.

The debt service requirements for General Obligation Bonds, Revenue Bonds, and Intergovernmental loans are as follows:

	Principal	Interest	Total
2018	\$1,879,325	\$992,030	\$2,871,355
2019	1,525,078	966,103	2,491,181
2020	1,550,127	932,865	2,482,992
2021	1,576,314	898,488	2,474,802
2022	1,452,115	863,506	2,315,621
2023 - 2027	7,746,687	3,797,532	11,544,219
2028 - 2032	6,113,842	2,796,352	8,910,194
2033 - 2037	3,604,268	1,910,963	5,515,231
2038 - 2042	3,448,696	1,172,954	4,621,650
2043 - 2047	3,198,171	480,466	3,678,637
2048 - 2052	705,544	96,856	802,400
2053 - 2057	155,263	4,080	159,356
TOTALS	\$32,955,429	\$14,912,195	\$ 47,867,638

The following is a summary of changes in long-term liabilities for the City for the year ended December 31, 2017:

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017
General Debt:				
UTGO Bonds, 2017	0	3,114,372	0	\$3,114,372
UTGO Bonds, 2016	<u>\$9,515,000</u>	<u>0</u>	<u>0</u>	<u>\$9,515,000</u>
	\$9,515,000	\$3,114,372	\$0	\$12,629,372

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017
<u>Revenue Debt:</u>				
PWTF Loan (PW-01)	\$ 779,959	\$ 0	\$ 155,992	\$ 623,967
PWTF Loan (PW-07)	4,320,555	0	392,777	3,927,778
PWTF Loan (PC12)	632,175	0	42,145	590,030
Dept. of Ecology (DOE) Loan	743,042	0	51,928	691,114
DOE Loan ARRA (Loan)	8,300,360	0	430,466	7,869,894
DOE State Revolv L0900008	144,742	0	7,506	137,235
DOE State Revolv STEP Loan	281,543	0	15,435	266,108
Water-Sewer Rev Bond 2013A	3,040,000	0	90,000	2,950,000
Water-Sewer Rev Bond 2013B	3,314,795	0	44,863	3,269,932
	<u>\$ 21,557,171</u>	<u>0</u>	<u>\$ 1,231,112</u>	<u>\$20,326,058</u>

A. General Obligation Bonds

Unlimited Tax General Obligation Bonds, Series 2017, dated December 26, 2017, issued in the principal amount of \$3,114,372, outstanding in the principal amount of \$3,114,371.55; final payment due December 1, 2027, remaining annual installments of principal and interest of \$3,585,385.02; remaining interest rates range from 2.508% to 3.04%; debt service paid from general property taxes levied for debt service.

The annual requirements to amortize all general obligation bonded debt outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	621,715	78,060	699,775
2019	250,461	76,829	327,290
2020	257,991	69,299	327,290
2021	266,132	61,158	327,290
2022	274,335	52,955	327,290
2023-2027	1,443,738	132,713	1,576,451
Total	<u>\$ 3,114,372</u>	<u>\$ 471,014</u>	<u>\$3,585,386</u>

Unlimited Tax General Obligation Bonds, Series 2016, dated December 6, 2016, issued in the principal amount of \$9,515,000, outstanding in the principal amount of \$9,515,000; final payment due December 1, 2046, remaining annual installments of principal and interest of \$17,498,038; remaining interest rates ranging of 3.75% to 4.25%; debt service paid from general property taxes levied for debt service.

The annual requirements to amortize all general obligation banded debt outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	0	378,225	378,225
2019	0	378,225	378,225
2020	0	378,225	378,225
2021	0	378,225	378,225
2022	0	378,225	378,225
2023-2027	60,000	1,891,125	1,951,125
2028-2032	1,855,000	1,736,325	3,591,325
2033-2037	2,260,000	1,334,725	3,594,725
2038-2042	2,735,000	858,500	3,593,500
2043-2047	2,605,000	271,238	2,876,238
Total	\$9,515,000	\$7,983,038	\$17,498,038

B. Compensated Absences — Government Debt

Compensated absences for government funds consist of Vacation Leave, Sick Leave, and Compensatory Time Leave Payable at December 31, 2017 in accordance with the City's leave policies.

Compensated Absences \$ 553,272

C. Public Works Trust Fund and Department of Commerce Loans

The City has two intergovernmental loans from the Public Works Trust Fund Board and one from the Department of Commerce. The loans are funded as part of the Public Works Trust Fund under the authority of RCW 43.115 to provide for local public works projects.

Public Works Trust Fund Loan, PW-01-691-002, total issued amount of \$2,911,846; outstanding in the principal amount of \$623,967; for Water system improvements; final payment due June 1, 2021; remaining annual installments of principal and interest ranging from \$159,111 to \$168,471; interest rate of 2.0%; debt service paid from revenues of the Water-Sewer fund.

The loan agreement provides for interest at 2% per annum on the outstanding balance. After the first loan repayment, subsequent repayments are due July 1 of each year and will consist of 1/19th of the outstanding principal plus interest on the unpaid balance of the loan.

The annual requirements to amortize the Public Works Trust Fund loan outstanding as of December 31, 2017 are as follows:

Fiscal			Total
Year	Principal	Interest	Requirements
2018	155,992	12,479	168,471
2019	155,992	9,359	165,351
2020	155,992	6,240	162,232
2021	155,991	3,120	159,111
Total	\$ 623,967	\$31,198	\$ 655,165

Public Works Trust Fund Loan, PW-07-962-001, total authorized amount of \$7,000,000; total outstanding amount of \$3,927,778; for Sewer system improvements; final payment due July 1, 2027; remaining annual installments of principal and interest ranging from \$394,742 to \$412,417; interest rate of 1/2%; debt service paid from revenues of the Water-Sewer fund.

The loan agreement provides for interest at 1/2% per annum on the outstanding balance. After the first loan repayment, subsequent repayments are due July 1 of each year and will consist of 1/19th of the outstanding principal plus interest on the unpaid balance of the loan.

The annual requirements to amortize the Public Works Trust Fund loan outstanding as of December 31, 2017 are as follows:

Fiscal			Total
Year	Principal	Interest	Requirements
2018	392,778	19,639	412,417
2019	392,778	17,675	410,453
2020	392,778	15,711	408,489
2021 ,	392,778	13,747	406,525
2022	392,778	11,783	404,561
2023-2027	1,963,888	29,458	1,993,346
Total	\$ 3,927,778	\$108,013	\$ 4,035,791

Department of Commerce Loan, PC12-951-002, total authorized amount of \$758,610; total outstanding amount of \$590,030; for Sewer system improvements; final payment due June 1, 2031; remaining annual installments of principal and interest ranging from \$42,250 to \$43,620; interest rate of .25%; debt service paid from revenues of the Water-Sewer fund.

The loan agreement provides for interest at .25% per annum on the outstanding balance. Loan payment installments are due on June 1st of each year during the 20-year fixed term of the loan.

The amortization schedule changed on this loan due to the project being finished early. The interest rate was reduced from 1% to .25% for the rest of the loan resulting in reduced interest payments.

The annual requirements to amortize the Public Works Trust Fund loan outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	42,145	1,475	43,620
2019	42,145	1,370	43,515
2020	42,145	1,264	43,409
2021	42,145	1,159	43,304
2022	42,145	1,054	43,199
2023-2027	210,725	3,688	214,413
2028-2032	168,580	1,054	169,634
Total	\$ 590,030	\$ 11,064	\$ 601,094

D. Department of Ecology Loans

The City has four intergovernmental Washington State Water Pollution Control Revolving Fund Loans from the Department of Ecology.

Department of Ecology Loan, L0700021, total issued amount of \$1,074,159; outstanding in the principal amount of \$691,114; for Sewer system improvements; final payment due December 31, 2028; remaining annual installments of principal and interest of \$74,710; interest rate of 3.1%; debt service paid from revenues of the Water-Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	53,561	21,149	74,710
2019	55,245	19,465	74,710
2020	56,982	17,728	74,710
2021	58,774	15,936	74,710
2022	60,622	14,088	74,710
2023-2027	332,933	40,616	373,549
2028	72,997	1,713	74,710
Total	\$ 691,114	\$ 130,695	821,809

Department of Ecology Loan, L0900007, total authorized amount of \$9,951,629 comprised of two elements: Recovery Act Loan and Recovery Act Green Project Reserve Loan for Sewer system improvements. The amount outstanding at December 31, 2017 is \$7,869,894. The first principal and interest payment was due June 1, 2013; interest rate of 2.9%; last debt service payment due June 1, 2032; debt service paid from revenues of the Water-Sewer fund. The loan is comprised of the following:

The estimated repayment requirements to amortize the Department of Ecology loan outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	443,117	226,402	669,519
2019	456,139	213,380	669,519
2020	469,544	199,975	669,519
2021	483,344	186,175	669,519
2022	497,549	171,970	669,519
2023-2027	2,715,864	631,727	3,347,591
2028-2032	2,804,337	208,494	3,012,831
Total	\$ 7,869,894	\$1,838,124	\$9,708,017

Department of Ecology State Base Revolving Loan, L00900008, total issued amount of \$173,537; outstanding in the principal amount of \$137,235; for Sewer system improvements; final payment due June 1, 2032; remaining annual installments of principal and interest of \$11,675; interest rate of 2.9%; debt service paid from revenues of the Water-Sewer fund.

Fiscal Year	Principal	Interest	Total Requirements
2018	7,727	3,948	11,675
2019	7,954	3,721	11,675
2020	8,188	3,487	11,675
2021	8,429	3,246	11,675
2022	8,676	2,999	11,675
2023-2027	47,360	11,016	58,376
2028-2032	48,901	3,636	52,537
Total	\$ 137,235	\$ 32,053	\$ 169,288

Department of Ecology Loan, L1100011, total issued amount of \$344,570; outstanding in the principal amount of \$266,108; for Sewer system improvements; final payment due November 30, 2031; remaining annual installments of principal and interest of \$22,976; interest rate of 2.7%; debt service paid from revenues of the Water-Sewer fund.

The annual requirements to amortize the Department of Ecology loan outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	15,858	7,118	22,976
2019	16,291	6,685	22,976
2020	16,736	6,240	22,976
2021	17,194	5,782	22,976
2022	17,664	5,312	22,976
2023-2027	95,831	19,048	114,879
2028-2031	86,534	5,370	91,904
Total	\$ 266,108	\$ 55,555	\$ 321,673

E. Water and Sewer Revenue Bonds

Water-Sewer Revenue Bonds, Series 2013 A, total issued amount of \$3,290,000; outstanding in the principal amount of \$2,950,000; for Sewer system improvements; final payment due December 1, 2038; remaining annual installments of principal and interest of ranging from \$220,750 to \$229,487; interest rates ranging from 2.0% to 5.0%; debt service paid from revenues of the Water-Sewer fund.

The annual requirements to amortize the Water-Sewer Revenue Bonds, Series 2013 A as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	100,000	129,487	229,487
2019	100,000	126,988	226,988
2020	100,000	123,987	223,987
2021	100,000	120,988	220,988
2022	105,000	117,988	222,988
2023-2027	580,000	532,088	1,112,088
2028-2032	725,000	389,850	1,114,850
2033-2037	925,000	193,106	1,118,106
2038	215,000	10,750	225,750
Total	\$ 2,950,000	\$ 1,745,232	\$ 4,695,232

Water-Sewer Revenue Bonds, Series 2013 B, total issued amount of \$3,400,000; outstanding in the principal amount of \$3,269,932; for Sewer system improvements; final payment due November 20, 2053; remaining semi-annual installments of principal and interest of \$80,240; interest rate of 3.5%; debt service paid from revenues of the Water-Sewer fund.

The annual requirements to amortize the Water-Sewer Revenue Bonds, Series 2013 B as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2018	\$ 46,433	\$ 114,047	\$ 160,480
2019	48,073	112,407	160,480
2020	49,770	110,710	160,480
2021	51,527	108,953	160,480
2022	53,346	107,134	160,480
2023-2027	296,349	506,051	802,400
2028-2032	352,491	449,909	802,400
2033-2037	419,268	383,132	802,400
2038-2042	498,696	303,704	802,400
2043-2047	593,171	209,228	802,399
2048-2052	705,544	96,856	802,400
2053	155,264	4,080	159,344
Total	\$3,269,932	\$2,506,211	\$5,776,143

F. Legal Debt Margin

The assessed valuation of the City for 2017 for purposes of determining the legal debt margin is \$586,974,733. Under State of Washington law statutes general obligation indebtedness pursuant to a vote of the electorate is limited to 2½% of actual value of taxable property located within the City. Indebtedness without a vote of the people is limited to 1½% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2½% of total assessed valuation. There is a 2½% limitation each for utility purposes and open space, park, and capital facilities purposes.

The remaining debt capacities of the City are as follows:

General Purposes Voted and Non-Voted Debt - 2½% (1)	\$ 14,674,368
Utility Voted Debt - 2½%	\$ 15,137,167
Open Space, Park, and Capital Facility Purposes - 2½%	\$ 2,044,996
Total Remaining Debt Capacity - All Categories	\$ 31,856,531

Includes \$8,804,621 debt capacity available for non-voted debt

Note 7---CONTRACTS PAYABLE

Capital Surcharge:

The City of Airway Heights entered into an agreement with the City of Spokane to purchase 680,000 gallons per day of sewage treatment capacity for \$2,040,000.00. In 1993 the Washington State Department of Corrections became a party to the contract assuming \$1,200,000.00 of the debt

The City of Airway Heights' share of this amount is to be paid over 19 years. The City of Airway Heights receives credit against the balance for the sewer surcharge paid to the City of Spokane. The contract is open for review every five years.

One component part, similar to interest on unpaid principal amounts, is to be calculated at 5% per year, in lieu of specific indexing.

Scheduled amounts, which have been based on projected flows, are to be reviewed every fifth year and then adjusted against actual measured flows.

The following chart lists the financial history of the City of Airway Heights portion of this capital surcharge agreement:

<u>Date</u>	<u>Description</u>	<u>Transaction</u>	<u>Balance</u>
06/30/92	Agreement signed	\$840,000	\$840,000
12/31/93	Interest @ 5% Payment	21,000 (4,261)	856,739
12/31/94	Interest @ 5% Payment	42,881 (5,681)	893,939
12/31/95	Interest @ 5% Payment	44,619 (18,976)	919,582
12/31/96	Interest @ 5% Payment	45,760 (43,980)	921,362
12/31/97	Interest @ 5% Payment	46,001 (62,697)	904,666
12/31/98	Interest @ 5% Payment	45,329 (239,977)	710,018
12/31/99	Interest @ 5% Payment	39,587 (79,308)	670,297
12/31/00	Interest @ 5% Payment	\$ 33,157 (102,117)	\$601,337

12/31/01	Interest @ 5% Payment	30,113 (99,289)	532,161
12/31/02	Interest @ 5% Payment	26,341 (137,425)	421,077
12/31/03	Interest @ 5% Payment	21,135 (132,228)	309,984
12/31/04	Interest @ 5% Payment	15,511 (132,798)	192,697
12/31/05	Interest @ 5% Payment	10,263 (122,256)	80,704
12/31/06	Interest @ 5% Payment	4,347 (168,988)	(83,937)

The City of Spokane overbilled the Sewer Capital Charge to the City of Airway Heights in 2006 by \$83,937.21. At December 31, 2017 the City of Airway Heights was due a refund of \$83,937.21 for Capital Charge and \$40,076.27 of interest for a total of \$124,013.48.

Sewer Connection Fee:

The City of Airway Heights also has agreed to pay the City of Spokane for a one-time sewer connection charge of \$397,874.00. This agreement is to be collected over a number of years as additional sewer service users pay for their respective sewer connection fee(s)

The following chart lists the financial history of this connection charge agreement:

Date	Description	Transaction	Balance
06/30/93	Agreement signed	\$397,874	\$397,874
12/31/93	Interest @ 7% Payment	13,925 (0)	411,799
12/31/94	Interest @ 7% Payment	28,826 (0)	440,625
12/31/95	Interest @ 7% Payment	30,844 (0)	471,469
12/31/96	Interest @ 7% Payment	33,003 (0)	504,472
12/31/97	Interest @ 7% Payment	35,313 (130,000)	409,785

12/31/98	Interest @ 7% Payment	33,235 (0)	443,020
12/31/99	Interest @ 7% Payment	31,011 (250,000)	224,031
12/31/00	Interest @ 7% Payment	24,432 (0)	248,463
02/06/01	Payment	(248,463)	0
12/31/01	Balance	0	

Note 8 — Pension Plans

A. State Sponsored Pension Plans

Substantially all city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS and LEOFF).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

The city also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov

At June 30, 2017, (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer	Allocation %	Liability (Asset)
	Contributions		
PERS 1	\$84,562	0.014058%	\$667,063
PERS 2/3	\$110,445	0.018082%	\$628,263
PSERS 2			

LEOFF 1			
LEOFF 2	\$79,220.77	0.050148%	(695,892)
VFFRPF		0.030000%	(10,401)

LEOFF Plan 2

The city also participates in the LEOFF Plan 2. 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.

B. Local Government Pension Plans

Note 9 — Risk Management

The City of Airway Heights is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2017, 99 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) and pollution liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2017, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

NOTE 10. Airway Heights Transportation Benefit District

The Airway Heights City Council created the Airway Heights Transportation Benefit District (reported as a blended component unit) as a quasi-municipal corporation, an independent taxing district, by ordinance C-793 on April 15, 2013. The District was created under the authority provided by RCW 35.21. The District is a governmental special-purpose entity governed by a Board of Directors, created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District.

The seven-member Board is composed of the seven members of the Airway Heights City Council acting in an ex officio and independent capacity, which has the authority to exercise the statutory powers set forth in chapter 36.73 RCW. The Chair of the Board is the Mayor of the City; the Secretary of the Board is the City Manager; and the Treasurer of the District is the City Clerk-Treasurer.

A ballot measure was proposed and approved in November 2013 to authorize a sales tax of two-tenths of one percent (0.2%) to be collected in the District, effective April 1, 2014. Collections of these revenues directly from the State started in 2014. In 2017, sales tax received by the District was \$460,735.

The boundaries of the District are identical with the City of Airway Heights city limits. The District operates under the laws of the State of Washington applicable to a Transportation Benefit District. The District uses cash basis accounting which is a departure from generally accepted accounting principles (GAAP). The District was added to the City's financial statements in 2017 as a blended component unit.

NOTE 11. Other Disclosures

Legal Matters

In the normal course of governmental operations the City has claims filed against it for various losses related to actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. The collective impact of these claims is not likely to have a material impact on the City's financial position. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims.

A. Federal and State Programs

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.

B. Bond Sale

The City sold Bonds in December 2016 for 9,515,000; the City was authorized by Ordinance C-884 to sell up to 13,000,000.00. The City sold the second issuance of \$3,114,371.55 in December 2017; the funds will be used for a Recreation Center, the Bonds will comprise the use of all current voter authorized unlimited tax general obligation bonds.

C.

In May 2017 the City heard from FAFB that its water maybe contaminated by the PFOS/PFOA firefighting chemicals, through water testing the City confirmed that several wells were contaminated, consequently there have been some claims filed against the City, The City and the FAFB are working together through these water issues to come to a solution for all. At the current time the City does not know the amount of claims that will be filed.

**City of Airway Heights
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.22	GO Bond, Voted Open Space, Parks, and Capital Facilities	12/1/2046	9,515,000	-	-	9,515,000
251.22	Voted GO Debt, Open Space, Parks, and Capital Facilities	12/1/2027	3,114,372	-	621,715	2,492,657
Total General Obligation Debt/Liabilities:			12,629,372	-	621,715	12,007,657
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	PWTF Loan PW-01-691-002	7/1/2021	623,967	-	155,992	467,975
263.82	PWTF Loan PW-07-962-001	7/1/2027	3,927,778	-	392,778	3,535,000
263.82	PWTF Loan PC12-951-002	6/1/2031	590,030	-	42,145	547,885
263.82	Dept. Of Ecology Loan (DOE)L0700021	12/31/2028	691,114	-	53,561	637,553
263.82	ARRA Loan Agree L090007 Loan	6/1/2032	7,869,894	-	443,117	7,426,777
263.82	DOE State Revolving Loan L0900008	6/1/2032	137,236	-	7,726	129,510
263.82	DOE State Rev Loan L1100011 Step Loan	11/30/2031	266,108	-	15,858	250,250
252.11	Water & Sewer Revenue Bonds, Series 2013 A	12/31/2038	2,950,000	-	100,000	2,850,000
252.11	Water & Sewer Revenue Bonds, Series 2013 B	11/20/2053	3,269,932	-	46,433	3,223,499
264.30	Net Pension Liabilities		1,295,326	-	310,763	984,563
259.12	Compensated Absences		553,271	46,020	-	575,159
Total Revenue and Other (non G.O.) Debt/Liabilities:			22,174,656	46,020	1,568,373	20,628,171
Total Liabilities:			34,804,028	46,020	2,190,088	32,635,828

**City of Airway Heights
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.22	GO Bond, Voted Open Space, Parks, and Capital Facilities	12/1/2046	9,515,000	-	-	9,515,000
251.22	Voted GO Debt, Open Space, Parks, and Capital Facilities	12/1/2027	-	3,114,372	-	3,114,372
Total General Obligation Debt/Liabilities:			9,515,000	3,114,372	-	12,629,372
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	PWTF Loan PW-01-691-002	7/1/2021	779,959	-	155,992	623,967
263.82	PWTF Loan PW-07-962-001	7/1/2027	4,320,556	-	392,778	3,927,778
263.82	PWTF Loan PC12-951-002	6/1/2031	632,175	-	42,145	590,030
263.82	Dept. Of Ecology Loan (DOE)L0700021	12/31/2028	743,042	-	51,928	691,114
263.82	ARRA Loan Agree L090007 Loan	6/1/2032	8,300,360	-	430,466	7,869,894
263.82	DOE State Revolving Loan L0900008	6/1/2032	144,742	-	7,506	137,236
263.82	DOE State Rev Loan L1100011 Step Loan	11/30/2031	281,543	-	15,435	266,108
252.11	Water & Sewer Revenue Bonds, Series 2013 A	12/31/2038	3,040,000	-	90,000	2,950,000
252.11	Water & Sewer Revenue Bonds, Series 2013 B	11/20/2053	3,314,795	-	44,863	3,269,932
264.30	Net Pension Liabilities		1,636,337	-	341,011	1,295,326
259.12	Compensated Absences		617,052	-	63,781	553,271
Total Revenue and Other (non G.O.) Debt/Liabilities:			23,810,561	-	1,635,905	22,174,655
Total Liabilities:			33,325,561	3,114,372	1,635,905	34,804,027

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov