

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**City of Spokane**  
**Spokane County**

Audit Period  
**January 1, 2008 through December 31, 2008**

**Report No. 1002267**

Issue Date  
**September 30, 2009**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

September 30, 2009

Mayor and City Council  
City of Spokane  
Spokane, Washington

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

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

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Spokane County  
January 1, 2008 through December 31, 2008**

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# Federal Summary

City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008

The results of our audit of the City of Spokane are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

## **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

### **Internal Control Over Financial Reporting:**

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

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

## **FEDERAL AWARDS**

### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs, with the exception of the Community Development Block Grants/Entitlement Grants Program and Workforce Investment Act (WIA) Program on which we issued qualified opinions on compliance with applicable requirements.

We reported findings that are required to be disclosed under OMB Circular A-133.

**Identification of Major Programs:**

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	CDBG – Entitlement and (HUD-Administered) Small Cities Cluster – Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
14.239	HOME Investment Partnerships Program
14.900	Lead Based Paint Hazard Control
17.258/259/260	Workforce Investment Act Cluster

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$630,073.

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

# Schedule of Federal Audit Findings and Questioned Costs

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

**1. The City did not comply with U.S. Department of Housing and Urban Development (HUD) grant requirements.**

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grant 14.235 Supportive Housing Program 14.239 HOME Investment Partnership 14.900 Lead-Based Paint Hazard Control
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	Refer to Applicable Contract Numbers at the end of Finding No. 1.
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

In 2008 the City spent the following amounts for its U.S. Department of Housing and Urban Development (HUD) programs:

\$6,382,898	Community Development Block Grant Program
\$1,710,280	HOME Investment Partnership Program
\$1,688,903	Supportive Housing Program
\$ 544,354	Lead Based Paint Hazard Program.

Our audit found the City did not have internal controls in place to ensure compliance with the following requirements:

### **Cash Management and Program Income**

The City did not have internal controls designed to ensure program income was used to pay for or reduce program-related costs prior to seeking federal reimbursement for the Community Development Block Grant and HOME programs. The City received \$1,726,726 in Community Development Block Grant program income and \$220,428 in HOME program income in July 2007 through June 2008 that was not deducted from expenses in a timely manner. During this period, the City frequently drew down additional federal funds without offsetting costs with earned program income.

Additionally, the City's internal controls were not adequate to ensure interest earned from investing federal funds was properly accounted for or sent to HUD. During the 2008 program year, the City earned \$727 in interest by investing the HOME grant cash balance, which included cash drawdowns made during the year but not spent. The City reported these funds as program income to HUD rather than transferring the interest on advances.

Further, internal controls were not adequate to ensure income earned within the Community Development Block Grant program was used in accordance with grant requirements. The City loaned \$526,300 of Community Development Block Grant program income to its Lead-Based Paint Hazard federal program throughout 2008 to cover expenses. These funds were periodically repaid to the Community Development Block Grant; however, this is an unallowable use of this program income.

### **Matching**

Recipients of the Supportive Housing Grant are required to ensure an eligible cash match is contributed for support services and operating costs. For the City's grant, the match is primarily contributed by subrecipients. We found the City did not review supporting documentation for program years that began prior to but were in process during 2008 to verify the match amounts reported by subrecipients were from an allowable source and that they were accurate and complete.

### **Suspension and Debarment**

Federal grants recipients are required to ensure all subrecipients and any contractors paid in excess of \$25,000 are not suspended or debarred from receiving federal funds. The City awarded three contracts to subrecipients totaling \$350,683 in the HOME program, seven contracts to subrecipients totaling \$56,386 and one vendor contract totaling \$551,172 in the Community Development Block Grant program without obtaining the required suspension and debarment certifications or checking the status of these parties on the federal Excluded Parties Listing System prior to awarding the contracts.

Additionally, the City awarded a \$333,202 vendor contract in the Lead-Based Paint Hazard program and 23 contracts to subrecipients in the Supportive Housing program, totaling \$1,567,114 without obtaining the required suspension and debarment certifications or checking the status of these parties on the Federal Excluded Parties List prior to awarding the contracts.

### **Cause of Condition**

The City did not fully understand federal grant requirements or establish adequate internal controls to ensure compliance with program requirements.

### **Effect of Condition**

### **Cash Management and Program Income**

The City did not take steps to reduce the time elapsing from the date they receive the federal funds and the date they use the funds to pay for program costs. The amount requested from HUD was not net of program income earned resulting in the City

obtaining more federal funding than was necessary to meet the immediate program needs. Interest was earned on the excess cash balances. These interest earnings must be returned to the grantor. The City calculated those amounts to be:

- HOME Investment Partnership Program: \$727
- Community Development Block Grant Program: \$5,037.

The amounts were subsequently remitted to HUD.

### **Matching**

Without verifying that match amounts provided by subrecipients are accurate and provided from allowable sources, the City cannot be sure it has met its overall matching requirement. This can lead to repayment of any amounts for which the grantor has overpaid the City.

### **Suspension and Debarment**

Failure to ensure subrecipients and contractors are authorized to participate in federal programs could result in repayment of grant funds to the granting agency and/or jeopardize future federal funding. We verified the City did not award federal funds to suspended or debarred parties in the Community Development Block Grant, HOME program, Lead-Based Paint Hazard Grant and Supportive Housing Grant and will not question these costs.

### **Recommendation**

#### **Cash Management and Program Income**

We recommend the City establish and follow controls to ensure program income is used prior to submitting costs for reimbursement.

#### **Matching**

We recommend the City establish and follow internal controls to ensure the match amount provided by the subrecipient is from an allowable source and is supported by adequate documentation.

#### **Suspension and Debarment**

We recommend the City establish procedures to ensure compliance with suspension and debarment requirements.

### **City's Response**

*The City is in the process of further refining our internal controls to ensure program income is used prior to submitting costs for reimbursement, to ensure that the match amount provided by the subrecipient is from an allowable source and is supported by adequate documentation, and to ensure compliance with suspension and debarment requirements.*



*As the auditor acknowledged in their report, they did not find any areas of questioned costs, or any evidence that grant funds were being used inappropriately.*

### **Auditor's Remarks**

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit

### **Applicable Laws and Regulations**

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 24 Code of Federal Regulations, Section 85.24(b), states in part:

(6) Records. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

Title 2 Code of Federal Regulations, Section 180.220, states in part:

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract is expected to equal or exceed \$25,000 . . . .

Title 2 Code of Federal Regulations, Section 180.300 states:

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Title 24 Code of Federal Regulations, Section 570.500 Definitions - Subpart J, Grant Administration, states in part:

(2) Program income does not include income earned (except for interest described in Sec. 570.513) on grant advances from the U.S. Treasury. The following items of income earned on grant advances must be remitted to HUD for transmittal to the U.S. Treasury, and will not be reallocated under section 106(c) or (d) of the Act:

- (i) Interest earned from the investment of the initial proceeds of a grant advance by the U.S. Treasury;
- (ii) Interest earned on loans or other forms of assistance provided with CDBG funds that are used for activities determined by HUD either to be ineligible or to fail to meet a national objective in accordance with the requirements of subpart C of this part, or that fail substantially to meet any other requirement of this part; and
- (iii) Interest earned on the investment of amounts reimbursed to the CDBG program account prior to the use of the reimbursed funds for eligible purposes.

Title 24 Code of Federal Regulations, Section 570.504 - Program income, states:

- (a) Recording program income. The receipt and expenditure of program income as defined in Sec. 570.500(a) shall be recorded as part of the financial transactions of the grant program.
- (b) Disposition of program income received by recipients. (1) Program income received before grant closeout may be retained by the recipient if the income is treated as additional CDBG funds subject to all applicable requirements governing the use of CDBG funds. (2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:
  - (i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in Sec. 570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. (This rule does not prevent a lump sum disbursement to finance the rehabilitation of privately owned properties as provided for in Sec. 570.513.)

(ii) Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

Title 24 Code of Federal Regulations, Section 92.502 - Program Disbursement and Information System, states in part:

c. Disbursement of HOME funds.

1. After complete project set-up information is entered into the disbursement and information system, HOME funds for the project may be drawn down from the United States Treasury account by the participating jurisdiction by electronic funds transfer. The funds will be deposited in the local account of the HOME Investment Trust Fund of the participating jurisdiction within 48 to 72 hours of the disbursement request. Any drawdown of HOME funds from the United States Treasury account is conditioned upon the provision of satisfactory information by the participating jurisdiction about the project or tenant-based rental assistance and compliance with other procedures, as specified by HUD.

2. HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).

3. HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account.

4. A participating jurisdiction will be paid on an advance basis provided it complies with the requirements of this part.

## Applicable Contract Numbers

B06-MC-53-0006

B07-MC-53-0006

WA01B402024, WA01B502001, WA01B602001, WA01B602002, WA01B602003,  
WA01B602004,

WA01B602005, WA01B602006, WA01B602007, WA01B602008, WA01B602009,  
WA01B602010,

WA01B602011, WA01B602012, WA01B602013, WA01B602014, WA01B602015,  
WA01B602016,

WA01B602017, WA01B602018, WA01B602019, WA01B602020, WA01B602021,  
WA01B702001, WA01B702002, WA01B702003, WA01B702004,

WA01B702005, WA01B702006, WA01B702007, WA01B702008, WA01B702009,  
WA01B702010,

WA01B702011, WA01B702012, WA01B702013, WA01B702014, WA01B702015,  
WA01B702016,

WA01B702017, WA01B702018, WA01B702019, WA01B702020, WA01B702021,  
WA01B702022,

WA01B702023

M05-MC-53-0201

M06-MC-53-0201

WA LHB 0279-04

# **Schedule of Federal Audit Findings and Questioned Costs**

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

**2. The City did not have adequate controls over its federal Workforce Investment Act grants.**

<b>CFDA Number and Title:</b>	17.258/259/260 Workforce Investment Act Cluster
<b>Federal Grantor Name:</b>	U.S. Department of Labor
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Employment Security Department
<b>Pass-through Award/Contract Number:</b>	6112-7108, 6112-7107, 6112-1108, 6112-7307, 6112-1308, 6112-1307, 6112-7308, 6112-7007, 6112-7008, 6112-7207, 6112-1208, 6112-7208
<b>Questioned Cost Amount:</b>	\$373,257

### **Description of Condition**

During 2008, the City spent the following in Workforce Investment Act (WIA) grant money:

\$ 1,461,951	Adult Program
\$ 1,181,171	Youth Activities
\$ 1,038,749	Dislocated Workers

### **Allowable Costs/Cost Principles**

Federal regulations require payroll costs charged to grants to be supported by time and effort records. Depending on the number of activities employees work on, time and effort documentation can be provided in the form of semiannual certifications or monthly personnel activity reports, such as timesheets. Further, should payroll costs be charged to federal grants using an estimate or budget, the estimated cost must be reconciled quarterly to the actual amounts reflected on the time and effort records to ensure the charges are accurate.

These programs were charged for estimated salaries and benefits. Employees were not required to track actual time spent on different cost objectives. As a result, the City could not perform reconciliation or ensure estimates were accurate.

## Cash Management

The City's internal controls were not adequate to ensure cash drawdowns were limited to immediate cash needs and that cash was not held for an unreasonable amount of time. Amounts claimed for administrative expenditures on each drawdown were estimated, resulting in drawdowns that were in excess of actual expenditures. Subsequent drawdowns were not adjusted to use cash on hand prior to requesting more funds. The excess cash balance at December 31, 2008, for each of the programs was:

\$ 71,206	Adult Program
\$ 66,377	Youth Activities
\$ 45,624	Dislocated Workers
\$19,999	Administrative Cost Pool

Additionally, the City's internal controls were not adequate to ensure interest earned from investing federal funds was properly accounted for or sent back to the grantor. During 2008, the City earned \$7,535 in interest by investing the cash balance of each grant, which included cash drawdowns made during the year but not spent. The cash balance was invested as treasurer's cash nightly during the period and interest earned was deposited into the City's general fund.

## Subrecipient Monitoring

We reviewed all reimbursement requests made by three subrecipients during 2008. We found the City was not adequately monitoring whether subrecipients were spending grant funds for allowable purposes and whether the expenditures were within the period of availability. The subrecipient reimbursement requests contained no detailed expenditure reports or vendor invoices for goods and services, travel claims or payroll information. In lieu of asking for this level of detail with the reimbursement requests, the City could have visited the subrecipients on site to review their fiscal records, but the City did not fully perform this alternate monitoring.

## Cause of Condition

The City did not fully understand federal grant requirements or establish controls and monitoring to ensure it complied with program requirements.

## Effect of Condition

### Allowable Costs/Cost Principles

The City cannot be assured that grants are charged only for the time spent working on the program without adequate time and effort records. The City charged the following amounts to each of the programs for administrative expenses:

\$29,589	Adult Program
\$61,115	Youth Activities
\$34,909	Dislocated Workers
\$247,644	Administrative Cost Pool

We are questioning these costs.

## **Cash Management**

Grantees should take steps to reduce the time elapsing from the date they receive federal funds and the date they use the funds to pay for program costs. The amount requested from a federal agency should be limited to ensure that the City does not obtain more federal funding than was necessary to meet the immediate program needs. Interest earnings that exceed \$100 per year from excess cash balances should be returned to the grantor.

## **Subrecipient Monitoring**

The risk of subrecipients not following federal regulations or spending funds for unallowed purposes is increased when the City does not adequately monitor subrecipient spending activity.

## **Recommendation**

### **Allowable Costs/Cost Principles**

We recommend the City improve internal controls and monitoring to ensure time and effort records are prepared for all employees charged to federal grants. Further, the City should consult with the state about repayment of the questioned costs.

## **Cash Management**

We recommend the City establish and follow internal controls to ensure amounts requested from a federal agency are limited to immediate program needs and a cash balance is not maintained. Additionally, the City should compute the amount of interest earned on advance funds over the past five years and remit it to the grantor.

## **Subrecipient Monitoring**

We recommend the City establish controls and monitoring to ensure compliance with subrecipient monitoring requirements.

## **City's Response**

*The City will establish and comply with internal controls related to allowable costs, cash management and sub-recipient monitoring. The City will also consult with the Washington State Employment Security Department to establish an approved cost allocation plan or begin time and effort documentation of employees being charged to federal grants.*

*The City will also work with the grantor to remit any interest due on advanced funds, and to establish the appropriate documentation or remit funds for the administrative costs questioned in their report.*

## Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit

## Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, states in part:

### Section 510

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program.

### Section 400

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not



available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 8(h), states in part:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in

subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity, for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Title 29, Code of Federal Regulations, Section 97.21 – Payment, states in part:

(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205 . . .

(i) Interest earned on advances...grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

# Schedule of Prior Federal Audit Findings

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Spokane. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 2007	<b>Report Reference No:</b> 75383	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 59.SBAHQ06I0031
<b>Federal Program Name and Granting Agency:</b> Inland Northwest Regional GigaPop Connectivity Project – U.S. Small Business Administration		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate controls over its federal Inland Northwest Regional GigaPop Connectivity Project grant.			
<b>Background:</b> During 2007, the City spent \$1,480,842 in federal grant funds for the Inland Northwest Regional GigaPop Project. The City sought and was awarded this grant to help bring network access and technologies on board to support regional research, academic organizations and economic development in the area. Our audit found the City did not have internal controls in place to ensure compliance with the following requirements:			
<b>Activities Allowed/Allowable Costs</b> The City did not ensure costs charged to the grant were allowable and that items purchased were used for the project. The City paid invoices totaling \$135,444 that did not describe what was purchased; no vendor follow-up or monitoring was done to determine this as well. During the audit, the City was able to provide supporting documentation for fiber-optic equipment purchases.			
<b>Equipment</b> The City did not ensure equipment purchased with federal funds was properly recorded in its fixed asset system as required by federal regulations. The City recorded the entire grant amount of \$1,480,842 as a single fixed asset, rather than itemizing equipment. It also did not include serial numbers or descriptions for the equipment.			
<b>Procurement</b> The City did not ensure that proper procedures were followed when equipment was purchased with federal funds. The purchasing of equipment was of the responsibility Pacific Northwest GigaPop, a nonprofit organization established at and operated by University of Washington. The City did not check with the organization to ensure it was using appropriate procurement procedures. Purchases totaling \$273,219 were made from one vendor for which no			

competitive procurement procedures were followed or a justification for a sole source of supply was retained.

**Suspension and Debarment**

Federal grant recipients are required to ensure all subrecipients and any contractors paid in excess of \$25,000 are not suspended or debarred from receiving federal funds. The City did not ensure Pacific Northwest GigaPop or any vendors used by the group were not suspended or debarred. Four contracts totaling \$1,470,478 were awarded without obtaining the required suspension and debarment certification or otherwise checking the status of these parties on the federal Excluded Parties Listing System prior to awarding the contracts. We checked the status during our audit and found the vendors had not been suspended or debarred. As a result, we are not questioning these costs.

**Status of Corrective Action: (check one)**

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

**Corrective Action Taken:**

*The Inland Northwest Regional GigaPop Connectivity Project grant was fully expended in 2007, so no activity happened on this grant in 2008. The City has communicated with, and trained staff for proper compliance with the issues contained in this finding, including allowable costs, record keeping for capital assets acquired with federal funds, proper procurement procedures, and suspension and debarment. City staff has also been made aware that federal grant requirements are the responsibility of the grantee (in this case, the City), and cannot be delegated to another agency.*

*The capital assets acquired with these grant funds have been transferred to another Washington state agency in 2009, with the permission of the grant administrator, so the City's responsibility for ongoing tracking of these assets has been eliminated.*

<b>Audit Period:</b> 2007	<b>Report Reference No:</b> 75383	<b>Finding Reference No:</b> 2	<b>CFDA Number(s):</b> 14.218, 14.239, 14.235 and 14.900
<b>Federal Program Name and Granting Agency:</b> Community Development Block Grant, HOME Investment Partnerships Program, Supportive Housing, Lead Based Paint Hazard Program – U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not comply with requirements of its U.S. Department of Housing and Urban Development (HUD) grant programs.			
<b>Background:</b> In 2007, the City spent the following amounts for its HUD programs:			
\$6,991,185	Community Development Block Grant program		
\$1,511,733	HOME Investment Partnership program		
\$1,796,101	Supportive Housing Program		
\$ 780,496	Lead Based Paint Hazard Program.		

Our audit found the City did not have internal controls in place to ensure compliance with the following requirements:

**Allowable Costs/Cost Principles**

Payroll costs are allocated to each grant based on a percentage of total program expenditures for the Community Development Block Grant, HOME Grant and the Lead Based Paint Hazard Program. While this method of allocation was approved by HUD, we found the City had no effective means of monitoring the process to ensure payroll costs were appropriately charged to each of the programs. No secondary review of the allocation calculations is done by City staff.

**Cash Management and Program Income**

Internal controls were not adequate to ensure program income was used to pay for, or reduce, program-related costs prior to seeking federal reimbursement for the Community Development Block Grant and HOME programs. The City earned program income from repayment of Housing Rehabilitation and Economic Development and HOME loans. The City received program income of \$2,789,959 in Community Development Block Grant and \$349,273 in HOME for July 2006 to June 2007 that was not deducted from expenses in a timely manner. During this period, the City frequently drew down additional federal funds without offsetting costs with earned program income.

Additionally, the City's internal controls were not adequate to ensure interest earned from investing federal funds was properly accounted for or sent to HUD. During the 2007 program year, the City earned \$4,647 in interest by investing the HOME grant cash balance which included cash draw downs made during the year but not spent. The City reported these funds as program income to HUD rather than transferring the interest on advances.

Further, internal controls were not adequate to ensure program income earned within the Community Development Block Grant program was used in accordance with program requirements. The City loaned approximately \$780,496 of Community Development Block Grant program income to its Lead Based Paint Hazard federal program throughout 2007 to cover expenses. These funds were periodically re-paid to Community Development Block Grant; however, this is an unallowable use of Community Development Block Grant program income.

**Matching**

Recipients of the Supportive Housing Grant are required to ensure an eligible cash match is contributed for support services and operating costs. For the City's grant, the match is primarily contributed by subrecipients. We found the City did not obtain or review supporting documentation to verify the match amounts reported by subrecipients were from an allowable source and was accurate and complete.

**Suspension and Debarment**

Federal grants recipients are required to ensure subrecipients and any contractors paid in excess of \$25,000 are not suspended or debarred from receiving federal funds. The City awarded 56 contracts to subrecipients totaling \$475,086 and two vendor contracts totaling \$662,104 in the Community Development Block Grant program without obtaining the required suspension and debarment certifications or checking the status of these parties on the federal Excluded Parties Listing System prior to awarding the contracts.

Additionally, the City awarded two contracts in the Lead Based Paint Hazard program totaling \$674,973 without obtaining the required suspension and debarment certifications or checking the status of these parties on the federal Excluded Parties List prior to awarding the contracts.

### Reporting

Federal Cash Transaction Reports must be completed and submitted to HUD quarterly for the Community Development Block Grant. Monitoring was not adequate to ensure these reports were completed, included accurate information and were remitted to HUD as required.

### Subrecipient Monitoring

The City distributed \$1,615,701 in program funds to subrecipients within the Supportive Housing program in 2007. Federal Office of Management and Budget Circular A-133 requires the City to obtain audit reports from any subrecipient that spends \$500,000 or more in federal funds. In 2007, the City had at least five subrecipients in this program that did so. The City did not monitor whether subrecipients met audit requirements or ensure the required audits were completed within nine months of the end of the subrecipient's audit period.

Additionally, the City did not monitor whether audit reports were received for subrecipients in Community Development Block Grant and HOME programs. We found one of the reports for a subrecipient in HOME could not be located and another for a subrecipient in Community Development Block Grant noted issues related to the program that had not been followed up on.

### Status of Corrective Action: (check one)

Fully  
Corrected

Partially  
Corrected

No Corrective Action  
Taken

Finding is considered no  
longer valid

### Corrective Action Taken:

#### **Allowable Cost/Cost Principles (Fully Corrected):**

*An acceptable and approved method has been used by the Community Development accountant to accurately allocate Department payroll costs across the appropriate grants. However, no secondary reviews of the allocation calculations were made by other Community Development or City staff prior to 2008. In 2008, this secondary review was done.*

#### **Cash Management and Program Income (Partially Corrected):**

*In both HOME and a CDBG Housing Revolving Loan Fund (RLF), the City earns program income throughout the year. However, prior to 2008, the City drew down grant funds without offsetting costs with earned program income. In addition, for a portion of 2008, the program income in the CDBG RLF was used as a cash flow loan to cover eligible expenses of the Lead Based Paint Hazard Control (Lead) program, until such Lead expenses could be reimbursed by the Lead grant from HUD. This practice stopped in mid-2008.*

*During 2008, the Community Development Department prepared written guidelines for the use of program income prior to submitting costs for reimbursement from federal grant funds. Additionally, the Community Development Department has computed the amount of interest earned on advance funds in the HOME program over the past five years and remitted it to HUD in mid-2008. Also Community Development Department computed the amount of interest that should have been earned on the CDBG RLF program income that was loaned to the Lead grant program and remitted it to HUD in mid-2008.*

*During 2008 the City implemented procedures to ensure that a secondary review of these calculations will be made by other Community Development or City staff.*

**Matching (Partially Corrected):**

*In the Supportive Housing Program, the Human Services department did not always follow proper procedures to obtain or review supporting documentation to verify the match amounts reported by sub-recipients were from an allowable source and were accurate and complete.*

*The Human Services Department requested that sub-recipients submit supporting documents for match amounts claimed with monthly invoices, and for all match amounts claimed on Annual Progress Reports submitted in 2008. The department accountant reviewed supporting documents to ensure the amounts claimed for match are allowable, accurate, and complete. During 2008, most of the supporting documents for sub-recipient match were followed up on, but there continued to be several instances where the follow-up did not occur. The City will continue to refine its procedures to ensure compliance with this requirement.*

**Suspension and Disbarment (Partially Corrected):**

*The 2007 audit revealed that not all Subrecipients or required Contractors were timely checked for Suspension and Disbarment on the federal Excluded Parties Listing System prior to awarding their contracts.*

*The Community Development Department reviewed and revised in writing the existing procedures and monitoring process to ensure compliance with suspension and debarment requirements for all subrecipients and any contractors paid in excess of \$25,000. The department also revised the standard language in their subrecipient and vendor contracts to require that the subrecipients/contractors attested to their Suspension/Debarment status as part of their contracts. Despite these measures, there continued to be several instances that the status of suspension/debarment was not documented. The City will continue to refine its procedures to ensure compliance with this requirement.*

**Reporting (Fully Corrected):**

*Federal Cash Transaction Reports for CDBG are completed and submitted to HUD on a quarterly basis by the Community Development accountant. In 2008, the secondary review of the reports was made by other Community Development or City staff.*

*The Community Development Department now has a reviewer sign the quarterly Federal Cash Transaction Reports that are prepared by the Community Development accountant.*

**Subrecipient Monitoring (Fully Corrected):**

*The City is required to obtain audit reports from any subrecipient that expends \$500,000 or more in federal grant funds. In 2008, the City Community Development and Human Services Departments adequately followed this requirement. The Community Development Department also established written procedures and monitoring processes to ensure compliance. The City now ensures there is secondary review of this process made by other City staff.*



**Independent Auditor's Report on Internal  
Control over Financial Reporting and on  
Compliance and Other Matters in Accordance  
with *Government Auditing Standards***

City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008

Mayor and City Council  
City of Spokane  
Spokane, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we will report to the management of the City in a separate letter dated September 30, 2009.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended for the information and use of the audit committee, management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

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**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 30, 2009

# **Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

Mayor and City Council  
City of Spokane  
Spokane, Washington

## **COMPLIANCE**

We have audited the compliance of the City of Spokane, Spokane County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2008. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in Findings 1 and 2 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding allowable costs/cost principles, cash management, procurement and suspension and debarment, program income, and subrecipient monitoring that are applicable to the Community Development Block Grants/Entitlement Grants and Workforce Investment Act programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to the programs.

In our opinion, except for the noncompliance described in the preceding paragraphs, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

## ***INTERNAL CONTROL OVER COMPLIANCE***

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs, we consider Findings 1 and 2 to be material weaknesses.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 30, 2009

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

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

Mayor and City Council  
City of Spokane  
Spokane, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, Spokane County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed on page 29. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spokane, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 30 through 40 and pension trust fund information on pages 104 through 107 are not a required part of the basic financial statements

but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 30, 2009

# **Financial Section**

**City of Spokane  
Spokane County  
January 1, 2008 through December 31, 2008**

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2008

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2008  
Statement of Activities – 2008  
Balance Sheet – Governmental Funds – 2008  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2008  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2008  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2008  
Statement of Net Assets – Proprietary Funds – 2008  
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2008  
Statement of Cash Flows – Proprietary Funds – 2008  
Statement of Fiduciary Net Assets – Fiduciary Funds – 2008  
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2008  
Notes to Financial Statements – 2008

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Employees' Retirement System – Schedule of Funding Progress and Schedule of Employer Contributions – 2008  
Firefighters' Pension Fund – Schedule of Funding Progress and Schedule of Employer Contributions – 2008  
Police Pension Fund – Schedule of Funding Progress and Schedule of Employer Contributions – 2008  
Notes to the Required Supplementary Information – Pension Plans – 2008

## ***SUPPLEMENTAL INFORMATION***

Schedule of Expenditures of Federal Awards – 2008  
Notes to the Schedule of Expenditures of Federal Awards – 2008



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Spokane, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2008. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

### Financial Highlights

- The City's assets exceeded its liabilities by \$2,179,583,151 (net assets) for the fiscal year reported.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt of \$1,873,856,082, includes property, equipment and infrastructure, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$34,127,235 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$271,599,834 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$195,959,676 this year. This compares to the prior year ending fund balance of \$142,057,684, showing a significant increase of \$53,901,992 during the current year. Of this increase, \$27,191,424 was a prior period adjustment related to a change in the financial presentation of revolving loans receivable in Community Development funds. Unreserved fund balance of \$159,788,295 at 12/31/08 is a \$28,328,129 increase from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$35,528,091, or 23% of total General Fund expenditures including transfers and 23% of total General Fund revenues including transfers.
- Overall, the City improved its strong financial position in 2008, and is continuing to invest in the local economy, despite ongoing budgetary pressures related to the general economic downturn.

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

### Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

### Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Assets*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

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

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

The government-wide financial statements are presented on pages 16 & 17 of this report.

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

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

The City has three kinds of funds:

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

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

Budgetary comparison statements are included as "basic financial statements" for the General Fund. Budgetary comparison schedules for all other governmental funds can be found in a later section of this report. These statements demonstrate compliance with the City's adopted and final revised budget.

The basic governmental fund financial statements are presented on pages 19-20 of this report.

Individual fund information for non-major governmental funds is found in combining statements in a later section of this report.

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

The basic proprietary fund financial statements are presented on pages 24-28 of this report.

*Fiduciary funds* include three single employer pension plans for City employees and various agency funds. The City reports these funds only at the fund level since the resources in these funds are not available for City use. The fund level financial statements for fiduciary funds begin on page 29 of this report.

**Notes To The Basic Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin on page 31 of this report.

**Financial Analysis of the City as a Whole**

Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The City's net assets at fiscal year-end are \$ 2,179,583,151. The following table provides a summary of the City's net assets:

**Summary of Net Assets  
12/31**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets:</b>						
Current & other assets	\$ 264,984,637	225,819,629	\$ 186,635,240	179,998,861	\$ 451,619,877	405,818,490
Restricted assets	-	-	22,380,008	22,780,633	22,380,008	22,780,633
Capital assets	<u>1,490,342,190</u>	<u>1,475,695,202</u>	<u>518,969,537</u>	<u>503,796,953</u>	<u>2,009,311,727</u>	<u>1,979,492,155</u>
Total assets	<u>1,755,326,827</u>	<u>1,701,514,831</u>	<u>727,984,785</u>	<u>706,576,447</u>	<u>2,483,311,612</u>	<u>2,408,091,278</u>
<b>Liabilities:</b>						
Current liabilities	25,056,817	20,286,465	9,262,752	13,628,625	34,319,569	33,915,090
Long-term liabilities	<u>194,894,850</u>	<u>160,862,793</u>	<u>74,514,042</u>	<u>82,405,719</u>	<u>269,408,892</u>	<u>243,268,512</u>
Total liabilities	219,951,667	181,149,258	83,776,794	96,034,344	303,728,461	277,183,602
<b>Net assets:</b>						
Capital assets, net of debt	1,410,639,225	1,398,670,923	463,216,857	436,017,731	1,873,856,082	1,834,688,654
Restricted	9,535,792	28,468,047	24,591,443	25,371,635	34,127,235	53,839,682
Unrestricted	<u>115,200,143</u>	<u>93,226,607</u>	<u>156,399,691</u>	<u>149,152,737</u>	<u>271,599,834</u>	<u>242,379,344</u>
Total net assets	<u>\$ 1,535,375,160</u>	<u>1,520,365,577</u>	<u>\$ 644,207,991</u>	<u>610,542,103</u>	<u>\$ 2,179,583,151</u>	<u>2,130,907,680</u>

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 9.4 to 1 and 21.5 to 1 for business type activities. For the City overall, the current ratio is 12.7 to 1. We consider these ratios to be very strong.

The City reported positive balances in net assets for both governmental and business-type activities. Net assets increased \$15,009,583 for governmental activities, which included a \$2,993,272 prior period increase related to a change in tax revenue accruals and an increase for current year activities of \$10,649,065. Business activities' net assets increased by a total of \$33,665,888, which contributed to a net government-wide increase of \$48,675,471 in net assets.

Note that approximately 92% of the governmental activities' net assets are related to capital (with 36% of the capital assets being infrastructure). The City uses these capital assets to provide services to its citizens. With business-type activities, the City has spent approximately 72% of its net assets on capital (with 28% of the capital assets being infrastructure). Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 86% of the City's total net assets.

The following page provides a summary of the City's changes in net assets:

**Summary of Changes in Net Assets for the Year Ended 12/31**

	Governmental Activities		Business-Type Activities		Total		% Of Total 2008
	2008	2007	2008	2007	2008	2007	
Revenues:							
Program:							
Charges for services	\$ 29,270,532	23,922,809	\$ 162,155,776	164,526,376	\$ 191,426,308	188,449,185	47%
Operating grants	14,802,160	12,646,654	928,417	190,732	15,730,577	12,837,386	4%
Capital grants	15,415,531	10,068,607	15,013,790	11,725,415	30,429,321	21,794,022	7%
General:							
Taxes	154,317,788	147,379,890	-	-	154,317,788	147,379,890	38%
Interest	10,018,784	9,304,057	6,408,940	8,070,683	16,427,724	17,374,740	4%
Total revenues	223,824,795	203,322,017	184,506,923	184,513,206	408,331,718	387,835,223	100%
Program expenses:							
General							
government	11,147,423	19,752,640	-	-	11,147,423	19,752,640	3%
Judicial	6,640,000	5,909,358	-	-	6,640,000	5,909,358	2%
Public safety	99,769,417	93,939,142	-	-	99,769,417	93,939,142	27%
Physical							
environment	2,761,986	2,583,862	-	-	2,761,986	2,583,862	1%
Transportation	39,220,701	37,481,145	-	-	39,220,701	37,481,145	11%
Health and human services	82,800	95,080	-	-	82,800	95,080	0%
Economic environment	20,237,513	23,606,801	-	-	20,237,513	23,606,801	6%
Culture and recreation	25,124,592	21,276,391	-	-	25,124,592	21,276,391	7%
Interest	8,200,851	6,587,872	-	-	8,200,851	6,587,872	2%
Water	-	-	29,099,922	29,130,943	29,099,922	29,130,943	8%
Sewer	-	-	45,299,200	40,312,822	45,299,200	40,312,822	12%
Solid Waste	-	-	68,910,628	63,682,115	68,910,628	63,682,115	19%
Other business types	-	-	6,746,886	7,507,962	6,746,886	7,507,962	2%
Total expenses	213,185,283	211,232,291	150,056,636	140,633,842	363,241,919	351,866,133	100%
Excess revenues (expenses)	10,639,512	(7,910,274)	34,450,287	43,879,364	45,089,799	35,969,090	
Transfers	9,554	(1,172,533)	(9,554)	1,172,533	-	-	
Change in net assets	10,649,066	(9,082,807)	34,440,733	45,051,897	45,089,799	35,969,090	
Prior period adjustments	4,360,518	8,724,691	(774,845)	(39,464)	3,585,673	8,685,227	
Beginning net assets	1,520,365,577	1,520,723,693	610,542,103	565,529,670	2,130,907,680	2,086,253,363	
Ending net assets	\$ 1,535,375,161	1,520,365,577	\$ 644,207,991	610,542,103	\$ 2,179,583,152	2,130,907,680	

## GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations. Sales taxes provided 18% of the revenues for governmental activities. Property taxes provided 23% of these revenues, and utility taxes total 25%. Charges for services totaled 14% of these revenues and grants and contributions totaled 14%. Note that program revenues cover approximately 28% of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 72% of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

## GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety costs comprise 47% of the City's total governmental expenses. Transportation and culture and recreation costs make up 18% and 12%, respectively, of the total governmental expenses. The economic environment expenses are 9% of governmental expenses.

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

<b>Governmental Activities</b>					
		Total Cost Of Services		Net Cost Of Services	
		2008	2007	2008	2007
		2008	2007	2008	2007
General government	\$	11,147,423	19,752,640	\$ 1,089,947	10,443,758
Judicial		6,640,000	5,909,358	3,374,275	2,785,006
Public safety		99,769,417	93,939,142	92,563,738	88,125,529
Physical environment		2,761,986	2,583,862	2,662,071	2,259,898
Transportation		39,220,701	37,481,145	20,802,832	27,093,847
Health and human services		82,800	95,080	(155,728)	(12,812)
Economic environment		20,237,513	23,606,801	5,006,258	9,766,698
Culture and recreation		25,124,592	21,276,391	20,152,816	17,544,425
Interest		8,200,851	6,587,871	8,200,851	6,587,872
<b>Total</b>	<b>\$</b>	<b>213,185,283</b>	<b>211,232,291</b>	<b>\$ 153,697,060</b>	<b>164,594,221</b>

Program revenues covered the program expenses for only one function in 2008, health and human services. The capital contributions of \$1.1 million in the general government function related to the collections of special assessments from property owners for the construction of sidewalks and alleys, etc. The offsetting costs related to the contributions will be reflected as expenses in subsequent years as the City depreciates the capital assets constructed.

## BUSINESS-TYPE ACTIVITIES Revenues vs. Costs

For all enterprise funds, the City reports a current ratio of 21.5 to 1, which is an extremely healthy ratio. The business-type activities report capitalized assets of over \$519 million, which provide a variety of services to the citizens of Spokane as well as some populations outside the city limits.

The business-type activities report over \$156 million in unrestricted net assets, which provide these funds with adequate resources to maintain service levels without substantial increases in their revenue streams.

The operating revenues for all six of the City's enterprise funds were up comparable with amounts from 2007, with operating expenses 7% higher than the prior year. Within the total business-type activities of the City, these enterprise funds reported nearly \$14 million in operating income compared to operating income of \$24 million for 2007. The City carefully sets utility rates each year to properly charge the citizens of Spokane for the current year operations and capital plans. This can result in some variability in operating results when comparing several years. A detailed discussion of the major enterprise funds is presented in a separate section below.

## **Financial Analysis of the City's Funds**

### ***Governmental funds***

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately \$196 million. Of this year-end total, \$159.7 million is unreserved indicating availability for continuing City service requirements. Legally restricted fund balances (i.e., the reserved fund balances) include \$5.9 million committed to service debt and \$368,096 committed to capital projects.

The total ending fund balances of governmental funds show an increase of \$22.8 million from the prior year. This increase includes the proceeds from the sale of unlimited tax general obligation bonds in June, 2008 in the "Capital Improvements – 2008 Parks Fund". This fund contributed \$36.7 million of the positive change, with the other governmental funds experiencing a decrease in fund balances of \$13.9 million. These decreases largely are the result of the nation-wide economic downturn that have had a significant effect on taxes collected on retail sales and real estate transactions.

### ***Major Governmental Funds***

**The General Fund** is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$1.05 million. In the prior year, the fund balance increased by \$7.5 million. Unreserved fund balance as a percentage of expenditures was 23% of annual operations, as compared with 25% at the end of 2007. Despite this slight reduction, the General Fund reserves are still considered extremely strong, and provide management the ability to effectively manage the economic downturn and budgetary challenges that are facing many businesses and governments at this time. Over the past four years, the City's management and elected officials have committed to building a robust reserve to ensure the long-term financial health of the General Fund, and the fund balance at the end of 2008 reflects the results of this commitment. The steps they have taken to achieve this result are discussed in the *Budgetary Highlights* section of this analysis.

Taxes totaling \$119 million made up 80% of total general fund revenue in 2008 as compared to 81% in 2007. All other sources of revenue were similar to 2007, with the exception of interfund charges for services, which increased \$2.1 million over the prior year. Almost \$1 million of this increase related to interfund engineering services, which is tied to the increased streets and other capital projects in 2008.

General fund expenditures increased \$10.5 million or approximately 9.7%. Public safety made up 65% of total expenditures. Since the general fund supports a number of programs in other funds, \$33.4 million was transferred to these funds.

### ***The Proprietary Funds***

The City reports six primary enterprise funds, of which three are considered major funds. These three funds provide the utility services of water, sewer and solid waste to the citizens of Spokane. The City also maintains seven internal service funds.

**The Water System** - The water system reports net assets of over \$168 million, with 74% represented by capital assets. The current ratio for this fund is 16.6 to 1 which provides this fund with significant resources to cover cash flow issues.

The water system reported operating income of \$1.3 million with a total increase in net assets of approximately \$7.1 million after capital contributions and transfers in from other funds. These amounts were comparable to 2007 with related amounts of \$2.9 million and \$7.1 million. This fund has adequate reserves to support its long-term financial health, and provide service to its ratepayers.

**The Sewer System** – The sewer system reports net assets of over \$332 million, with 84% invested in capital assets. The current ratio for this fund is 9.1 to 1 which provides this fund with adequate resources to cover cash flow issues.

The sewer system reported operating income of \$10.3 million with a total increase in net assets of approximately \$22.5 million after capital contributions and transfers in from other funds. These amounts are comparable to the 2007 related amounts of \$11.9 million and \$26.1 million. The 2008 capital contributions of \$11.2 million include a combination of unamortized balances of state and federal grants, and builder contributed and donated assets.

The sewer system reported operating revenues of \$56,336,096, which is a 6.3% increase over the prior year.

**The Solid Waste System** – The solid waste fund reports net assets of over \$119 million. The investment in capital assets less related debt (i.e., the book value of the capital assets less related debt) is approximately \$60.1 million. The current ratio for this fund is 18.5 to 1 which provides this fund with adequate resources to cover cash flow requirements. This fund reports over \$48.9 million in unrestricted net assets.

The solid waste fund reported operating income of \$2.7 million with a total increase in net assets of approximately \$2.6 million after transfers out to other funds. These amounts show a decrease from related amounts of \$10.4 million and \$8.4 million for 2007. Solid waste rates were not raised in 2008, while operating expenses increased by nearly \$6 million. The fund still has very robust reserves that will be adequate to provide service to its ratepayers in the future.

## **Budgetary Highlights**

**The General Fund** – The General Fund's original revenue budget was \$132,000 less than the 2007 actual results. The original expenditure budget was \$7.1 million more than the 2007 actual results. The management of the City was actively engaged in developing a budget that did not spend more than current year revenues would support. The City Council amended both the revenue and expenditure budgets during 2008; the amendments resulted in an approximate 3% change between the original and final budgets for revenues and a 9% change for expenditures. In total, final budgeted revenues exceeded the actual revenues by less than 1%. The total actual expenditures were approximately \$5.2 million less than budgeted, or 4% below budget.

On the revenue side of the budget, all of the categories corresponded closely with the budget, except for fines and forfeitures, where there was a decrease of \$1 million over the budgeted amount, due to lower than anticipated collections of civil and parking infractions.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts were in the general government, economic environment, and capital outlay categories. Generally, these positive variances related to reduced expenditures in the planning department, and in lower than anticipated capital expenditures on the City Hall HVAC project.



As indicated by the budgetary operating statement, the City staff considers the annual budget to be an extremely important document and attempts to include in the budget their best estimate of revenue and expenditures. In 2008, City staff continued to focus on the ongoing structural gap between the rates of growth of revenues versus expenditures in the General Fund. The City is also utilizing longer term budgetary projections to help the management and City Council make strategically sound budget decisions.

## Capital Assets and Debt Administration

### Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2008, was \$1.5 billion and \$519 million respectively. The 3% increase for business-type activities was for normal improvement and additions to the utilities' infrastructure. See Note 5 for additional information about changes in capital assets during the fiscal year and amounts outstanding at the end of the year. The following table provides a summary of capital assets.

	<b>Capital Assets</b>							
	(Amounts Presented in \$1,000's)							
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Non-depreciable assets:								
Land	\$ 825,579	\$ 824,318	\$ 20,028	\$ 19,554	\$ 845,607	\$ 843,872	30%	31%
Construction in progress	48,014	22,126	30,215	65,357	78,229	87,483	3%	3%
Total non-depreciable	<u>873,593</u>	<u>846,444</u>	<u>50,243</u>	<u>84,911</u>	<u>923,836</u>	<u>931,355</u>	<u>33%</u>	<u>34%</u>
Depreciable assets:								
Buildings	76,899	76,505	273,398	225,696	350,297	302,201	13%	11%
Other improvements	21,102	20,048	52,266	51,140	73,368	71,188	3%	3%
Machinery and equipment	78,190	74,318	102,200	101,608	180,390	175,926	6%	6%
Infrastructure	909,513	898,565	351,388	332,225	1,260,901	1,230,790	45%	45%
Total depreciable assets	<u>1,085,704</u>	<u>1,069,436</u>	<u>779,252</u>	<u>710,669</u>	<u>1,864,956</u>	<u>1,780,105</u>	<u>67%</u>	<u>66%</u>
Total cost of capital assets	1,959,297	1,915,880	829,495	795,580	2,788,792	2,711,460	<u>100%</u>	<u>100%</u>
Accumulated depreciation	<u>468,955</u>	<u>440,181</u>	<u>310,578</u>	<u>291,838</u>	<u>779,533</u>	<u>732,019</u>		
Book value – capital assets	<u>\$ 1,490,342</u>	<u>\$ 1,475,699</u>	<u>\$ 518,917</u>	<u>\$ 503,742</u>	<u>\$ 2,009,259</u>	<u>\$ 1,979,441</u>		
Percentage depreciated	<u>24%</u>	<u>23%</u>	<u>37%</u>	<u>37%</u>	<u>28%</u>	<u>27%</u>		

At December 31, 2008, the depreciable capital assets for governmental activities were 24% depreciated. This is an increase from 23% at December 31, 2007.

With the City's business type activities, 37% of the asset values were depreciated at December 31, 2008 and December 31, 2007. These percentages indicate that the City is maintaining and replacing their assets at a favorable rate. The percentage of depreciated assets for each of the four enterprise funds that report capital assets is as follows:

Water System	32%
Sewer System	32%
Solid Waste	56%
Golf	42%

### **Long-term debt**

At the end of the fiscal year, the City had long-term debt outstanding of over \$221 million. Of this amount, \$160 million or 72% is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue. The other major component is \$41 million supported by pledged revenues generated primarily by the business-type activities of the City (revenue bonds).

During the year, the City retired \$26.7 million or 13% of the beginning outstanding borrowed debt balance.

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2008	2007	2008	2007	2008	2007	
General obligation bonds	\$ 160,136	\$ 129,836	\$ 454	\$ 454	\$ 160,590	\$ 130,290	23.26%
Special assessment debt	3,070	3,905	-	-	3,070	3,905	-21.38%
Revenue bonds	-	-	41,255	52,865	41,255	52,865	-21.96%
Capital leases	22	44	-	-	22	44	-50%
Bank and other loans	2,608	1,906	13,981	14,348	16,589	16,254	2.08%
<b>Total</b>	<b>\$ 165,836</b>	<b>\$ 135,691</b>	<b>\$ 55,690</b>	<b>\$ 67,667</b>	<b>\$ 221,526</b>	<b>\$ 203,358</b>	<b>8.94%</b>

During the year, the City issued \$42,900,000 in new general obligation debt, and \$2,030,677 of bank and other loans. The debt per capita for the citizens of the City of Spokane was approximately \$1,092.

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

### **Economic Conditions Affecting the City**

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Sales taxes are considered an "elastic" revenue stream; tax collections are higher in a flourishing economy and are lower in a depressed economy. While enjoying a strong economy for the past several years, the City of Spokane is currently dealing with the nation-wide economic downturn. The City's management and elected officials are prepared to deal with any these revenue fluctuations because of the strong reserves that have been established.

### **Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Office of Finance, 808 West Spokane Falls Boulevard, Spokane, WA 99201.

**CITY OF SPOKANE  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 37,081,024	\$ 14,153,531	\$ 51,234,555
Equity in Pooled Investments	178,003,020	127,148,995	305,152,015
Receivables (net)	25,548,520	26,330,028	51,878,548
Internal balances	(6,378,954)	6,378,954	-
Inventories	2,087,476	2,951,370	5,038,846
Prepaid Items	56,290	-	56,290
Restricted assets:			
Cash and cash equivalents	-	22,380,008	22,380,008
<b>Noncurrent Assets:</b>			
Deferred charges and other assets:			
Deferred charges	-	1,703,451	1,703,451
Noncurrent receivables	28,587,261	2,530,032	31,117,293
Other assets	-	5,438,879	5,438,879
<b>Capital Assets (net of accumulated depreciation):</b>			
Land	825,579,412	20,028,416	845,607,828
Property, plant and equipment	86,854,821	220,931,999	307,786,820
Infrastructure	529,894,360	247,794,300	777,688,660
Construction in progress	48,013,597	30,214,822	78,228,419
Total assets	1,755,326,827	727,984,785	2,483,311,612
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	15,238,232	7,002,437	22,240,669
Unearned revenue	569,983	1,236,055	1,806,038
Other current liabilities	9,248,602	1,024,260	10,272,862
<b>Noncurrent liabilities:</b>			
Due within one year	24,417,573	17,038,009	41,455,582
Due in more than one year	170,477,277	57,476,033	227,953,310
Total liabilities	219,951,667	83,776,794	303,728,461
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,410,639,225	463,216,857	1,873,856,082
Restricted for:			
Debt service	-	22,380,008	22,380,008
Other purposes	9,535,792	2,211,435	11,747,227
Unrestricted	115,200,143	156,399,691	271,599,834
Total net assets	\$ 1,535,375,160	\$ 644,207,991	\$ 2,179,583,151

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

**CITY OF SPOKANE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>FUNCTIONS/PROGRAMS</b>							
Governmental activities:							
General government	\$ 11,147,423	\$ 8,944,563	\$ 901	\$ 1,112,012	\$ (1,089,947)	\$ -	\$ (1,089,947)
Judicial	6,640,000	3,265,725	-	-	(3,374,275)	-	(3,374,275)
Public safety	99,769,417	5,868,939	495,266	841,474	(92,563,738)	-	(92,563,738)
Physical environment	2,761,986	72,930	26,985	-	(2,662,071)	-	(2,662,071)
Transportation	39,220,701	6,199,462	-	12,218,407	(20,802,832)	-	(20,802,832)
Health and human services	82,800	103,774	134,754	-	155,728	-	155,728
Economic environment	20,237,513	1,171,615	14,059,640	-	(5,006,258)	-	(5,006,258)
Culture and recreation	25,124,592	3,643,524	84,614	1,243,638	(20,152,816)	-	(20,152,816)
Interest on long-term debt	8,200,851	-	-	-	(8,200,851)	-	(8,200,851)
Total governmental activities	213,185,283	29,270,532	14,802,160	15,415,531	(153,697,060)	-	(153,697,060)
Business-type activities:							
Water	29,099,922	31,439,306	-	3,773,847	-	6,113,231	6,113,231
Sewer	45,299,200	55,864,027	35,304	11,239,943	-	21,840,074	21,840,074
Solid Waste	68,910,628	68,680,152	893,113	-	-	662,637	662,637
Other business-type activities	6,746,886	6,172,291	-	-	-	(574,595)	(574,595)
Total business-type activities	150,056,636	162,155,776	928,417	15,013,790	-	28,041,347	28,041,347
Total government	363,241,919	191,426,308	15,730,577	30,429,321	(153,697,060)	28,041,347	(125,655,713)
<b>GENERAL REVENUES:</b>							
Property taxes					48,873,345	-	48,873,345
Sales taxes					37,998,902	-	37,998,902
Utility Taxes					53,204,435	-	53,204,435
Other taxes					14,241,106	-	14,241,106
Investment earnings					10,018,783	6,408,940	16,427,723
<b>TRANSFERS</b>					9,554	(9,554)	-
Total general revenues and transfers					164,346,125	6,399,386	170,745,511
Change in net assets					10,649,065	34,440,733	45,089,798
Prior period adjustments					4,360,518	(774,845)	3,585,673
Net assets - beginning					1,520,365,577	610,542,103	2,130,907,680
Net assets - ending					1,535,375,160	644,207,991	2,179,583,151

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	GENERAL 0100	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash	\$ 8,624,686	\$ 21,348,582	\$ 29,973,268
Deposits with fiscal agents/trustees	-	150,261	150,261
Equity in pooled investments	20,010,025	117,471,453	137,481,478
Receivables:			
Taxes receivable	10,948,115	3,062,471	14,010,586
Accounts receivable	632,020	2,439,060	3,071,080
Special assessments receivable	-	3,643,885	3,643,885
Interest receivable	216,390	390,382	606,772
Interfund loan Receivable	989,088	-	989,088
Due from other funds	4,604,518	6,829,322	11,433,840
Due from other governments	31,474	3,495,761	3,527,235
Notes/contracts receivable	-	28,841,078	28,841,078
Inventories	-	1,065,400	1,065,400
<b>Total assets</b>	<b>\$ 46,056,316</b>	<b>\$ 188,737,655</b>	<b>\$ 234,793,971</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ -	\$ 578,999	\$ 578,999
Accounts / vouchers payable	2,320,808	8,862,207	11,183,015
Due to other funds	962,543	8,942,867	9,905,410
Interfund Loan Payable	-	989,088	989,088
Due to other governments	2,772	661	3,433
Other accrued liabilities	4,610,235	1,745,685	6,355,920
Other current liabilities	705,291	2,173,930	2,879,221
Deferred revenue	1,926,576	5,012,632	6,939,208
<b>Total liabilities</b>	<b>\$ 10,528,225</b>	<b>\$ 28,306,069</b>	<b>\$ 38,834,294</b>
Fund Balances:			
Reserved for:			
Inventories	-	1,065,400	1,065,400
Notes / contracts receivable	-	28,841,078	28,841,078
Capital replacement	-	368,096	368,096
Debt Service	-	5,896,808	5,896,808
Unreserved:			
Designated for contingencies	19,653,231	-	19,653,231
Undesignated	15,874,860	-	15,874,860
Undesignated, reported in nonmajor:			
Special Revenue funds	-	34,682,766	34,682,766
Capital Projects funds	-	89,577,438	89,577,438
<b>Total fund balances</b>	<b>35,528,091</b>	<b>160,431,586</b>	<b>195,959,677</b>
<b>Total liabilities and fund balances</b>	<b>\$ 46,056,316</b>	<b>\$ 188,737,655</b>	<b>\$ 234,793,971</b>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,474,226,475
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	6,369,225
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	42,325,488
Some liabilities, including bonds payable, are not due and payable in the current reporting period and therefore are not reported in the funds.	(183,505,705)
<b>Net assets of governmental activities</b>	<b>1,535,375,160</b>

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

**CITY OF SPOKANE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	GENERAL 0100	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>			
Taxes	\$ 119,037,869	\$ 27,201,632	\$ 146,239,501
Licenses and permits	5,714,959	536,322	6,251,281
Intergovernmental	5,402,870	32,568,278	37,971,148
Charges for services	12,411,907	9,112,018	21,523,925
Fines and forfeitures	3,033,578	575,042	3,608,620
Miscellaneous	3,772,720	10,273,860	14,046,580
Total revenues	149,373,903	80,267,152	229,641,055
<b>EXPENDITURES</b>			
Current:			
General government	20,665,625	1,599,408	22,265,033
Security of persons and property	79,610,969	18,690,515	98,301,484
Physical environment	7,710,411	-	7,710,411
Transportation	-	20,689,011	20,689,011
Utilities and Environment	-	1,216,161	1,216,161
Economic environment	5,031,711	15,021,903	20,053,614
Mental and physical health	82,800	-	82,800
Culture and recreation	950,084	20,043,605	20,993,689
Capital outlay	5,069,495	34,637,331	39,706,826
Debt service:			
Principal	-	13,729,443	13,729,443
Interest	3,333	6,932,135	6,935,468
Total expenditures	119,124,428	132,559,512	251,683,940
Excess (deficiency) of revenues over (under) expenditures	30,249,475	(52,292,360)	(22,042,885)
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term debt issued	-	43,900,000	43,900,000
Premium on debt issuance	-	744,508	744,508
Sale of capital assets	136,798	649,710	786,508
Transfers in	1,928,085	46,627,087	48,555,172
Transfers out	(33,360,587)	(15,712,479)	(49,073,066)
Total other financing sources (uses)	(31,295,704)	76,208,826	44,913,122
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(1,046,229)	23,916,465	22,870,237
Other changes in fund balances:			
Prior period adjustment	2,993,272	28,038,483	31,031,755
Fund balances - beginning	33,581,048	108,476,637	142,057,684
Fund balances - ending	\$ 35,528,091	\$ 160,431,584	\$ 195,959,676

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

**CITY OF SPOKANE  
RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total governmental funds	\$ 22,870,237
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$43,690,236) exceeded depreciation (\$28,567,114) in the current period.	15,123,122
In the statement of activities, only the loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(1,184,372)
Some revenues in the governmental funds that were not available until the current year were reported in prior years in the statement of activities.	2,366,271
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	(30,915,065)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(2,766,167)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The net gain of internal service funds is reported with governmental activities.	<u>5,155,039</u>
Change in net assets of governmental activities	<u>\$ 10,649,065</u>

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



**CITY OF SPOKANE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 116,025,117	\$ 119,025,117	\$ 119,037,869	\$ 12,752
Licenses and permits	5,459,465	5,459,465	5,714,959	255,494
Intergovernmental	4,630,687	5,730,358	5,402,870	(327,488)
Charges for services	12,175,751	12,486,486	12,411,907	(74,579)
Fines and forfeitures	3,472,850	4,089,901	3,033,578	(1,056,323)
Miscellaneous	3,277,366	3,319,410	3,772,720	453,310
	145,041,236	150,110,737	149,373,903	(736,834)
<b>EXPENDITURES</b>				
Current:				
General government	22,084,595	22,642,516	20,665,625	1,976,891
Security of persons and property	78,915,898	79,137,053	79,610,969	(473,916)
Physical environment	8,395,857	8,659,284	7,710,411	948,873
Economic environment	5,636,731	6,372,690	5,031,711	1,340,979
Mental and physical health	105,080	105,080	82,800	22,280
Culture and recreation	1,015,349	1,021,143	950,084	71,059
Capital outlay	4,564,614	6,437,363	5,069,495	1,367,868
Debt service:				
Interest	10,000	10,000	3,333	6,667
	120,728,124	124,385,129	119,124,428	5,260,701
Excess revenues over expenditures	24,313,112	25,725,608	30,249,475	4,523,867
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	2,500	2,500	136,798	134,298
Transfers in	155,000	155,000	1,928,085	1,773,085
Transfers out	(30,865,962)	(33,899,137)	(33,360,587)	538,550
	(30,708,462)	(33,741,637)	(31,295,704)	2,445,933
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(6,395,350)	(8,016,029)	(1,046,229)	6,969,800
Other changes in fund balance				
Prior Period Adjustment	-	-	2,993,272	-
Fund balances - beginning	33,581,048	33,581,048	33,581,048	-
Fund balances - ending	\$ 27,185,698	\$ 25,565,019	\$ 35,528,091	\$ 6,969,800

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

**CITY OF SPOKANE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2008**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	<b>WATER</b>	<b>SEWER</b>	<b>SOLID WASTE</b>	<b>OTHER ENTERPRISE FUNDS</b>	<b>TOTAL</b>	
<b>ASSETS</b>						
Current assets:						
Cash and equivalents	\$ 1,506,111	\$ 8,586,147	\$ 3,678,710	\$ 331,836	\$ 14,102,804	\$ 6,129,133
Deposits with fiscal agents / trustees	50,727	-	-	-	50,727	828,362
Equity in pooled investments	37,757,903	35,241,721	52,012,408	2,136,963	127,148,995	40,521,542
Receivables:						
Accounts receivable	2,932,640	12,491,220	6,427,540	56,930	21,908,330	309,240
Interest receivable	122,385	110,038	171,437	4,756	408,616	125,906
Due from other funds	1,058,085	272,979	110,572	115,022	1,556,658	3,003,108
Due from other governmental units	-	3,114,796	898,285	-	4,013,081	-
Inventories	2,761,543	153,814	-	36,013	2,951,370	1,022,076
Prepayments	-	-	-	-	-	56,290
Total current assets	<u>46,189,394</u>	<u>59,970,715</u>	<u>63,298,952</u>	<u>2,681,520</u>	<u>172,140,581</u>	<u>51,995,657</u>
Restricted assets:						
Revenue bond reserves:						
Cash and equivalents	-	-	1,512,255	-	1,512,255	-
Equity in pooled investments	-	-	17,702,312	681,348	18,383,660	-
Interest receivable	-	-	55,277	4,952	60,229	-
Other restricted assets:						
Investments	-	-	2,423,864	-	2,423,864	-
Customer deposits - investments	<u>647,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>647,571</u>	<u>-</u>
Total restricted assets	<u>647,571</u>	<u>-</u>	<u>21,693,708</u>	<u>686,300</u>	<u>23,027,579</u>	<u>-</u>
Capital assets:						
Land	1,893,093	8,344,701	5,094,715	4,695,907	20,028,416	-
Property, plant and equipment	32,066,249	191,131,105	193,617,230	11,162,716	427,977,300	47,992,143
Infrastructure	159,364,393	192,024,065	-	-	351,388,458	-
Construction in progress	4,905,665	22,459,397	-	2,849,760	30,214,822	-
Less accumulated depreciation	<u>(63,128,320)</u>	<u>(131,331,756)</u>	<u>(110,904,935)</u>	<u>(5,274,450)</u>	<u>(310,639,461)</u>	<u>(31,876,428)</u>
Total capital assets	<u>135,101,080</u>	<u>282,627,512</u>	<u>87,807,010</u>	<u>13,433,933</u>	<u>518,969,535</u>	<u>16,115,715</u>
Other noncurrent assets:						
Other noncurrent assets and deferred charges	<u>-</u>	<u>2,612,532</u>	<u>6,412,259</u>	<u>-</u>	<u>9,024,791</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>2,612,532</u>	<u>6,412,259</u>	<u>-</u>	<u>9,024,791</u>	<u>-</u>
Total assets	<u>\$ 181,938,045</u>	<u>\$ 345,210,759</u>	<u>\$ 179,211,929</u>	<u>\$ 16,801,753</u>	<u>\$ 723,162,486</u>	<u>\$ 68,111,372</u>

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

**CITY OF SPOKANE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2008  
(CONTINUED)**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	WATER	SEWER	SOLID WASTE	OTHER ENTERPRISE FUNDS	TOTAL	
<b>LIABILITIES</b>						
Current liabilities:						
Accounts/vouchers payable	\$ 317,718	\$ 2,046,854	\$ 1,641,956	\$ 50,584	\$ 4,057,112	\$ 1,374,489
Claims and judgements payable	-	-	-	-	-	12,215,285
Compensated absences	43,710	43,851	40,496	13,274	141,331	78,794
Due to other funds	750,839	3,472,875	902,453	310,418	5,436,585	651,609
Due to other governmental units	928,989	431,491	212,442	-	1,572,922	-
Accrued interest payable	64,348	-	-	-	64,348	-
Other accrued liabilities	661,382	627,863	624,041	173,727	2,087,013	587,757
Other current liabilities	-	-	-	143,873	143,873	13,461
Notes and leases payable	10,493	3,000	-	-	13,493	22,409
<b>Total current liabilities</b>	<b>2,777,479</b>	<b>6,625,934</b>	<b>3,421,388</b>	<b>691,876</b>	<b>13,516,677</b>	<b>14,943,804</b>
Current liabilities payable from restricted assets:						
Revenue bonds payable	-	-	14,950,000	415,000	15,365,000	-
Accrued interest payable	-	21,612	548,128	11,781	581,521	-
Deposits and other payables	647,571	20,388	212,428	-	880,387	-
<b>Total current liabilities payable from restricted assets</b>	<b>647,571</b>	<b>42,000</b>	<b>15,710,556</b>	<b>426,781</b>	<b>16,826,908</b>	<b>-</b>
Noncurrent liabilities:						
Revenue bonds payable	-	-	24,178,673	1,835,468	26,014,141	-
General obligation bonds payable	-	-	-	453,713	453,713	-
Due to other governmental units	8,771,194	3,774,659	-	-	12,545,853	-
Unearned revenue	-	1,236,055	-	-	1,236,055	-
Compensated absences	837,073	647,379	516,547	209,573	2,210,572	583,197
Accrued landfill liability	-	-	2,050,817	-	2,050,817	-
Accrued landfill postclosure liability	-	-	14,297,017	-	14,297,017	-
Other noncurrent liabilities	47,922	13,703	-	-	61,625	-
<b>Total noncurrent liabilities</b>	<b>9,656,189</b>	<b>5,671,796</b>	<b>41,043,054</b>	<b>2,498,754</b>	<b>58,869,793</b>	<b>583,197</b>
<b>Total liabilities</b>	<b>13,081,239</b>	<b>12,339,730</b>	<b>60,174,998</b>	<b>3,617,411</b>	<b>89,213,378</b>	<b>15,527,001</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	125,290,149	278,404,659	60,079,837	11,290,847	475,065,492	16,093,306
Restricted for debt service	-	-	7,868,344	125,206	7,993,550	-
Restricted for solid waste closure	-	-	2,211,435	-	2,211,435	-
Unrestricted	43,566,657	54,466,370	48,877,315	1,768,289	148,678,631	36,491,065
<b>Total net assets</b>	<b>\$ 168,856,806</b>	<b>\$ 332,871,029</b>	<b>\$ 119,036,931</b>	<b>\$ 13,184,342</b>	<b>633,949,108</b>	<b>\$ 52,584,371</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					<u>10,258,883</u>	
Net assets of business-type activities					<u>\$ 644,207,991</u>	

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

**CITY OF SPOKANE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	WATER	SEWER	SOLID WASTE	OTHER ENTERPRISE FUNDS	TOTAL	
<b>OPERATING REVENUES</b>						
Charges for goods and services	\$ 30,908,543	\$ 56,180,043	\$ 70,160,626	\$ 6,160,939	\$ 163,410,151	\$ 30,478,375
Miscellaneous revenues	-	-	-	7,746	7,746	35,987,076
Other operating revenues	21,383	156,053	554,243	-	731,679	7,958
Total operating revenues	<u>30,929,926</u>	<u>56,336,096</u>	<u>70,714,869</u>	<u>6,168,685</u>	<u>164,149,576</u>	<u>66,473,409</u>
<b>OPERATING EXPENSES</b>						
Operations	10,168,252	13,579,737	40,210,451	4,933,464	68,891,904	22,417,905
Maintenance	6,543,252	8,267,479	3,457,697	1,036,085	19,304,513	-
General and administration	1,790,014	2,063,003	3,990,131	310,695	8,153,843	4,242,853
Taxes	7,571,764	13,493,077	7,685,989	19,448	28,770,278	-
Risk transfer payments	-	-	-	-	-	9,699,347
Claims processing	-	-	-	-	-	1,768,544
Payments to claimants and beneficiaries	-	-	-	-	-	19,313,349
Depreciation and amortization	3,498,552	8,565,977	8,552,041	362,924	20,979,494	3,634,200
Amortization of landfill closure costs	-	-	4,079,394	-	4,079,394	-
Total operating expenses	<u>29,571,834</u>	<u>45,969,273</u>	<u>67,975,703</u>	<u>6,662,616</u>	<u>150,179,426</u>	<u>61,076,198</u>
Operating income	<u>1,358,092</u>	<u>10,366,823</u>	<u>2,739,166</u>	<u>(493,931)</u>	<u>13,970,150</u>	<u>5,397,211</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	1,647,185	1,483,819	3,111,925	166,006	6,408,935	1,635,372
LID losses and engineering expenses	-	(964,284)	-	-	(964,284)	-
Revenues from jobbing and contract work	1,041,942	242,364	-	-	1,284,306	-
Expenses from jobbing and contract work	(1,129,866)	-	-	-	(1,129,866)	-
Gain (loss) on disposition of fixed assets	53,557	18,825	142,736	-	215,118	149,340
Interest expense	(138,248)	(78,090)	(2,080,925)	(185,507)	(2,482,770)	(1,491)
Rent and lease income	543,747	-	142,071	-	685,818	-
Amortization - other long term assets	-	-	(2,090,179)	-	(2,090,179)	-
Other nonoperating revenue	-	281,479	1,450,412	3,606	1,735,497	79,706
Other nonoperating expense	-	(15,149)	(786,644)	-	(801,793)	(26,986)
Total nonoperating revenues (expenses)	<u>2,018,317</u>	<u>968,964</u>	<u>(110,604)</u>	<u>(15,895)</u>	<u>2,860,782</u>	<u>1,835,941</u>
Income (loss) before contributions and transfers	3,376,409	11,335,787	2,628,562	(509,826)	16,830,932	7,233,152
Capital contributions	3,773,847	11,239,943	-	-	15,013,790	-
Transfers in	-	20,000	-	75,000	95,000	884,158
Transfers out	(17,180)	(47,012)	-	(40,362)	(104,554)	(356,711)
Change in net assets	7,133,076	22,548,718	2,628,562	(475,188)	31,835,168	7,760,599
Prior period adjustment	74,250	(814,889)	-	(34,207)	(774,846)	496,603
Total net assets - beginning	<u>161,649,480</u>	<u>311,137,200</u>	<u>116,408,369</u>	<u>13,693,737</u>	<u>403,888,786</u>	<u>44,327,169</u>
Total net assets - ending	<u>\$ 168,856,806</u>	<u>\$ 332,871,029</u>	<u>\$ 119,036,931</u>	<u>\$ 13,184,342</u>	<u>\$ 437,953,108</u>	<u>\$ 52,584,371</u>
					Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	2,605,560
					Change in net assets of business-type activities after adjustment for prior period items	\$ 33,665,882

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

**CITY OF SPOKANE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	WATER	SEWER	SOLID WASTE	OTHER ENTERPRISE FUNDS	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers and users	\$ 30,601,916	\$ 58,975,248	\$ 73,185,597	\$ 6,141,788	\$ 168,904,549	\$ 578,398
Receipts from interfund services provided	1,280,678	328,157	-	-	1,608,835	65,976,698
Payments to suppliers and for services	(3,297,604)	(9,776,379)	(28,264,772)	(877,810)	(42,216,565)	(42,514,909)
Payments to employees	(10,975,704)	(11,055,838)	(12,377,964)	(1,527,046)	(35,936,552)	(10,159,355)
Payments for taxes - city and state	(7,571,764)	(13,493,077)	(7,699,724)	(2,840,147)	(31,604,712)	(102,551)
Payments for interfund services used	(5,719,059)	(7,874,065)	(9,282,504)	(966,271)	(23,841,899)	(4,743,201)
Other receipts / payments	-	239,417	-	5,865	245,282	276
Net cash provided (used) by operating activities	<u>4,318,463</u>	<u>17,343,463</u>	<u>15,560,633</u>	<u>(63,621)</u>	<u>37,158,938</u>	<u>9,035,356</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating grants received	-	-	110,561	-	110,561	-
Transfers in (out)	(17,180)	(27,012)	-	75,777	31,585	142,925
Net cash provided (used) by noncapital and related financing activities	<u>(17,180)</u>	<u>(27,012)</u>	<u>110,561</u>	<u>75,777</u>	<u>142,146</u>	<u>142,925</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from disposal of capital assets	74,156	-	145,935	-	220,091	308,107
Proceeds from loans, notes, and lease purchase payable	129,674	901,000	-	-	1,030,674	-
Capital grants and contributions received	968,628	1,356,268	-	-	2,324,896	-
Insurance proceeds from loss of capital asset	-	-	-	-	-	-
Acquisition and construction of capital assets	(6,129,036)	(19,748,158)	(1,561,847)	(1,486,856)	(28,925,897)	(4,269,801)
Principal paid on revenue bonds	-	-	(11,215,000)	(368,972)	(11,583,972)	-
Principal paid on intergovernmental loans and lease-purchase agreements	(964,064)	(430,452)	-	-	(1,394,516)	(21,444)
Interest paid on revenue bonds	-	-	(2,534,099)	(164,462)	(2,698,561)	-
Interest paid on general obligation bonds	-	-	-	(22,691)	(22,691)	-
Interest paid on intergovernmental loans	(138,248)	(56,478)	-	-	(194,726)	-
Interest paid on notes and capital leases	-	-	-	-	-	(1,491)
County landfill closure costs paid	-	-	(255,115)	-	(255,115)	-
Transfers in (out)	-	-	-	-	-	384,522
Net cash provided (used) by capital and related financing activities	<u>(6,058,890)</u>	<u>(17,977,820)</u>	<u>(15,420,126)</u>	<u>(2,042,981)</u>	<u>(41,499,817)</u>	<u>(3,600,107)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	(6,760,691)	(1,435,505)	(19,789,054)	(3,773,081)	(31,758,331)	(17,726,879)
Proceeds from sales and maturities of investments	6,980,000	-	14,018,832	5,787,222	26,786,054	11,540,000
Interest received	1,604,064	1,435,505	2,997,830	177,193	6,214,592	1,554,281
Net cash provided (used) by investing activities	<u>1,823,373</u>	<u>-</u>	<u>(2,772,392)</u>	<u>2,191,334</u>	<u>1,242,315</u>	<u>(4,632,598)</u>
Net increase (decrease) in cash and cash equivalents	65,766	(661,369)	(2,521,324)	160,509	(2,956,418)	945,576
Cash and cash equivalents, January 1	1,440,345	9,247,516	7,712,289	171,327	18,571,477	5,183,557
Cash and cash equivalents, December 31	<u>\$ 1,506,111</u>	<u>\$ 8,586,147</u>	<u>\$ 5,190,965</u>	<u>\$ 331,836</u>	<u>\$ 15,615,059</u>	<u>\$ 6,129,133</u>

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

Continued on next page

CITY OF SPOKANE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	WATER	SEWER	SOLID WASTE	OTHER ENTERPRISE FUNDS	TOTAL	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 1,358,092	\$ 10,366,823	\$ 2,739,166	\$ (493,931)	\$ 13,970,150	\$ 5,397,211
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	3,498,552	8,565,977	8,552,041	362,924	20,979,494	3,634,200
Amortization of landfill closure costs	-	-	4,079,394	-	4,079,394	-
Other revenues	1,572,381	574,941	699,365	-	2,846,687	341,507
Other expenses	(1,129,866)	(979,434)	(210,313)	(34,207)	(2,353,820)	-
(Increase) decrease in deposits with fiscal agents	(152)	-	-	-	(152)	(22,116)
(Increase) decrease in accounts receivable	(296,450)	(603,395)	298,780	(5,840)	(606,905)	70,588
(Increase) decrease in due from other funds	(320,992)	1,145,969	1,479,196	(2,590)	2,301,583	(203,983)
(Increase) decrease in due from other governments	-	1,395,811	676	-	1,396,487	-
(Increase) decrease in inventories	(371,847)	(39,363)	-	(2,158)	(413,368)	74,668
(Increase) decrease in prepayments	-	-	-	-	-	15,138
(Increase) decrease in other long-term assets	-	-	(12,079)	-	(12,079)	-
Increase (decrease) in accounts/vouchers payable	(191,093)	(3,628,015)	(819,731)	3,431	(4,635,408)	(197,206)
Increase (decrease) in due to other funds	(25,716)	533,668	(1,407,747)	90,473	(809,322)	(1,088,231)
Increase (decrease) in notes payable	-	(3,001)	-	-	(3,001)	-
Increase (decrease) in claims and judgements payable	-	-	-	-	-	822,712
Increase (decrease) in other accrued liabilities	238,028	194,601	147,288	(3,101)	576,816	188,568
Increase (decrease) in other current liabilities	(4,554)	(201,332)	-	(11,274)	(217,160)	2,190
Increase (decrease) in deposits payable	(51,071)	54	6,945	-	(44,072)	-
Increase (decrease) in employee leave benefits payable	43,151	23,159	7,652	32,652	106,614	(34,661)
Increase (decrease) in other long-term liabilities	-	(3,000)	-	-	(3,000)	34,771
Net cash provided (used) by operating activities	<u>\$ 4,318,463</u>	<u>\$ 17,343,463</u>	<u>\$ 15,560,633</u>	<u>\$ (63,621)</u>	<u>\$ 37,158,938</u>	<u>\$ 9,035,356</u>
<b>Noncash investing, capital and financing activities:</b>						
Assets contributed from developers and customers	\$ 2,805,219	\$ 4,102,288	\$ -	\$ -	\$ 6,907,507	\$ -
Total of noncash activities	<u>\$ 2,805,219</u>	<u>\$ 4,102,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,907,507</u>	<u>\$ -</u>

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

**CITY OF SPOKANE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008**

	PENSION TRUST FUNDS	FINCH MEMORIAL ARBORETUM PRIVATE-PURPOSE TRUST FUND	AGENCY FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 683,166	\$ 2,023	\$ 214,293
Equity in pooled investments	33,569,710	-	-
Deposits with Fiscal Agents / Trustees	-	-	10,000
Receivables:			
Interest and dividends	676,650	-	-
Taxes	906,814	-	-
Other receivables	-	-	-
Total receivables	1,583,464	-	-
Investments, at fair value:			
U.S. Fixed Income	43,682,428	-	-
U.S. Equities	46,709,905	-	-
Real Estate Investment Trusts	7,271,985	-	-
International Stocks	36,331,474	-	-
Alternatives	27,527,968	-	-
Total investments	161,523,760	-	-
Total assets	\$ 197,360,100	\$ 2,023	\$ 224,293
<b>LIABILITIES</b>			
Accounts payable	\$ 232,487	\$ 1,654	\$ 2,343
Matured long-term obligations	-	-	10,000
Due to other governmental units	-	-	204,636
Other accrued liabilities	22,986	-	3,543
Other current liabilities	27,086	-	3,771
Employee leave benefits	16,124	-	-
Total liabilities	298,683	\$ 1,654	\$ 224,293
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes	\$ 197,061,417	\$ 369	

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

**CITY OF SPOKANE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	PENSION TRUST FUNDS	FINCH MEMORIAL ARBORETUM PRIVATE-PURPOSE TRUST FUND
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 13,471,159	\$ -
Plan members	4,882,622	-
Intergovernmental revenue	231,146	-
Miscellaneous revenue	6,652	-
Private donations	-	24,402
Total contributions	18,591,579	24,402
Investment earnings:		
Net (decrease) in fair value of investments	(64,430,345)	-
Interest and Dividends	6,384,022	-
Total investment earnings (loss)	(58,046,323)	-
Less: investment expense	825,415	-
Net investment earnings (loss)	(58,871,738)	-
 Total additions	 (40,280,159)	 24,402
<b>DEDUCTIONS</b>		
Benefits	17,622,969	-
Medical and dental benefits	5,047,983	-
Refunds of contributions	370,947	-
Medical and dental administration	455,294	-
Administrative expenses	708,205	-
Arboretum maintenance	-	24,148
Total deductions	24,205,398	24,148
 Change in net assets	 (64,485,557)	 254
Net assets - beginning of the year	261,546,974	115
Net assets - end of the year	\$ 197,061,417	\$ 369

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



**CITY OF SPOKANE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spokane was incorporated November 29, 1881 with a population of 1,000 people and an area of two square miles. Today, over one hundred years later, the City's population is approximately 202,900 people within an area of about 59 square miles. The City's first charter was adopted December 28, 1910, with a Commission form of government. On January 1, 2001 the City began operating under the Strong Mayor-Council form of government that was adopted November 7, 2000.

The accounting policies of the City of Spokane conform to generally accepted accounting principles, as applicable to governments. The accompanying summary of the City of Spokane's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" (Statement #34). This Statement provided for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permitted an optional four-year further delay for implementation to the fiscal year ending in 2006. The City implemented the basic model for fiscal year 2002 and implemented the infrastructure-related portion by the scheduled phase in year of 2005.

**A. Scope of the Reporting Entity**

The accompanying financial statements of the City of Spokane include all funds, activities and functions over which the City's executive and legislative bodies exercise oversight responsibility. Oversight responsibility is derived from the City's power and includes, but is not limited to: a) financial interdependency, b) selection of governing authority, c) designation of management, d) ability to significantly influence operations and e) accountability for fiscal matters.

The most significant manifestation of oversight is financial interdependency. This includes the responsibility for financing deficits, entitlement to surpluses, and guarantees of "moral responsibility" for debt.

Included in the accompanying financial statements are several funds that are administered by independent boards. These include the Library fund, Park fund, Employees' Retirement fund, Firemen's Pension fund and the Police Pension fund. These organizations meet the criteria for inclusion in the City's financial statements.

The following organizations are not part of the City of Spokane and are excluded from the accompanying financial statements:

Community Colleges of Spokane - The governing body is appointed by the Governor of the State of Washington. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

Spokane School District #81 - The voters of the school district elect the governing body and taxes are levied by the school district itself. The City has no oversight responsibility nor does any financial interdependency exist between the two entities.

Spokane Housing Authority - The governing body is appointed by the Mayor of the City. It is an independent entity that does not have taxing authority, but can issue bonds. State law provides that liabilities incurred by them be satisfied from their assets and that no person shall have any right of action against the City on account of their debts, obligations and liabilities. The City does not, therefore, have oversight responsibility nor does any financial interdependency exist between the two entities.

Spokane Transit Authority - The governing body is appointed jointly by the City and Spokane County. Small cities in Spokane Transit's service area also elect a representative. The City has no oversight responsibility nor does any financial interdependency exist.

Spokane Public Facilities District - The governing board consists of five members. Two are appointed by the City, two by Spokane County, and the fifth member is selected by the other four directors. The City has no oversight responsibility nor does any financial interdependency exist.

Spokane Parking Public Development Authority - The governing board, appointed by the Mayor of the City, consists of five members. It is an independent entity that does not have taxing authority. State law provides that liabilities incurred by them be satisfied from their assets and that no person shall have any right of action against the City on account of their debts, obligations and liabilities. The City does not, therefore, have oversight responsibility nor does any financial interdependency exist between the two entities.

No component units were combined with the City to form the reporting entity because there are no component units that the City has the ability to exercise the basic criterion of oversight responsibility.

The City participates in three joint ventures. These include the Spokane International Airport, the Spokane County Health District and the Spokane Regional Transportation Council. The Spokane Regional Transportation Council is accounted for by the City in an Agency fund. The other two organizations are not part of the City and are excluded from the accompanying financial statements. See Note 12, Joint Ventures, which more fully describes these three organizations.

## **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as

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

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

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The **Water Fund** accounts for all revenues derived from and expenses incurred in the operation and construction of the water distribution and hydroelectric facilities of the City.

The **Sewer Fund** accounts for all revenue derived from and expenses incurred in the operation and construction of the wastewater treatment plant and the sewer system of the City.

The **Solid Waste Fund** has the responsibility of helping to maintain the health and well-being of the community through refuse pick-ups and the operation of the by-pass landfills and the waste-to-energy plant.

Additionally, the City reports the following fund types:

Internal service funds account for fleet and data processing management, employee benefits and insurance administration, and other administrative support provided to other departments of the City, or to other governments, on a cost reimbursement basis.

The private purpose trust fund accounts for contributions and donations from private sources to be expended for improvements and maintenance of the John A. Finch Memorial Arboretum.

The pension trust funds account for all of the activities of the Employees' Retirement Fund, the Firefighters' Pension Fund, and the Police Pension Fund. These funds accumulate resources and provide pension benefits for qualifying City employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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

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

#### **D. Budgetary Information**

Scope of Budget - Annual appropriated budgets are adopted for the General, Special Revenue, Debt Service, and Capital Projects funds. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

General Budget Policies - The City follows these policies and procedures in establishing the budgetary data reported in the financial statements:

1. Prior to November 1, the Mayor submits to the City Council a preliminary budget and budget message and files it with the City Clerk.
2. Public hearings are conducted to obtain taxpayers comments.
3. Prior to January 1, the budget is legally adopted through passage of an ordinance. The City is required by state law to adopt a balanced budget.
4. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the City Council.
5. A comparison of budget to actual is used as a management control device during the year for all funds.
6. The expenditures of a given fund may not legally exceed its appropriations.
7. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.
8. The level of control for adopted budgets is at the fund level.
9. Any unexpended appropriation balances automatically lapse at year-end.

Encumbrances - An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances at year-end represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders in process are completed. Encumbrances outstanding at year-end for unfulfilled obligations of the current year budget are reappropriated in the succeeding year.

Budget Basis of Accounting - The budgetary basis is substantially the same as the basis of accounting in all governmental funds.

Excess of Expenditures Over Appropriations -

The following governmental funds reported excess expenditures and other uses over appropriations.

<u>Fund</u>	<u>Amount</u>
Housing Stabilization Fund	\$ 11,270
GO Bond Redemption Fund	\$ 3,455,867

The Housing Stabilization amount is a result of unbudgeted expenditures to record portions of uncollectable receivables. The GO Bond Redemption Fund is a result of expenditures being greater than budgeted amounts.

Funds with Deficit Fund Balances or Net Assets -

The following funds reported deficit fund balances or retained earnings as of December 31, 2008:

<u>Fund</u>	<u>AMOUNT</u>
Special Assessment Construction	\$ 2,062,570

The Special Assessment Construction fund balance deficit results from interim financing of special assessment projects with local improvement district progress warrants. The fund balance deficit will be eliminated when the interim progress warrants are replaced with the issuance of special assessment bonds.

**E. Assets, Liabilities, and Net Assets or Equity**

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2008, the Treasurer was holding \$52,511,304 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund. Cash and equivalents includes cash on hand, cash in banks and petty cash funds.

2. Temporary Investments

The City Treasurer invests all temporary cash surpluses. Investments are stated at fair value as explained elsewhere in the Notes to the Financial Statements.

3. Receivables

Accounts receivables are stated net of allowances for uncollectible accounts. Estimated unbilled accounts receivable for the Water, Sewer and Solid Waste funds have been recognized as revenue. Accrued interest receivable consists of amounts earned on investments, notes and contracts at year end.

4. Amounts Due to and from Other Funds and Governments and Interfund Loans

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

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

5. Inventories -

Inventories are valued at average cost. The inventories of governmental funds, park fund, proprietary funds, water warehouse, water meter shop, waste-water treatment plant and utilities garage are maintained on a perpetual inventory system. Other reported inventories are determined by physical count.

Reported inventories in governmental funds consist of expendable supplies held for consumption. The cost thereof has been recorded as expenditure at the time individual inventory items were purchased (purchase method). Reported inventories in these funds are fully offset by a fund balance reserve, which indicates they are unavailable for appropriation. A comparison to market value is not considered necessary.

6. Restricted Assets

The proceeds of enterprise fund revenue bonds, as well as other resources, are restricted by applicable bond ordinances for construction costs and debt service payments. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note 13, Enterprise Fund Disclosures.

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

Cash and Investments – Debt Service	\$	19,956,114
Cash and Investments – Landfill Closure		2,211,435
Cash and Investments – Customer Deposits		647,571

7. Other Long-Term Assets

Other Long-Term Assets includes long-term Contracts Receivables in the Sewer fund and Other Long-Term Assets in the Solid Waste fund. See Note 13, Enterprise Fund Disclosures for a description of the Sewer fund and Solid Waste Management fund long-term assets.

8. Deferred Charges

Deferred charges include the preliminary costs of projects, landfill closure costs, unamortized bond issuance costs, and other costs incurred by the enterprise funds, which will be recovered by future rates. These include the accounts of Deferred Landfill Closure Charges, and Other Deferred Charges.

9. Capital Assets (see Note 5)

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

10. Compensated Absences

Employees accrue ten days of vacation leave per year for up to five years of service. From five to twenty years, three to four weeks are accrued depending on length of service, five weeks are accrued at the beginning of the twentieth year and six weeks are accrued at the beginning of the thirtieth year. An employee may accumulate paid vacation leave not to exceed two hundred hours or two times the employee's annual leave accrual, whichever is greater. The City has a policy of payment of the full amount of unused vacation leave up to the maximum accrual allowed upon termination or retirement.

The sick leave policy of the City varies according to the contract provisions of the various bargaining units. The most generous provision provides vesting, after five years of service, of 25% of the recorded sick leave at the date of resignation, and 40% upon retirement. There is no cash payment until resignation or retirement and the maximum pay out cannot be in excess of 960 hours for any employee.

All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. An additional amount has been accrued for the government's share of Social Security and Medicare Taxes relating to the vacation and sick leave accrual.

11. Long-Term Obligations (See Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line, or bonds-outstanding method. Bonds payable are reported net of



the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

13. Fund Equity

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

**F. Other Significant Accounting Policies**

Budgeting, Accounting and Reporting System (BARS)

The State of Washington' Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS). The purpose of the BARS manual is to provide for uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington. The City has established its own chart of accounts for accounting purposes and converts to BARS accounts for State reporting.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	\$ 160,136,287
Deferred Amounts on Bond Issuance	4,676,749
Due to Other Governments and Banks	2,608,484
Compensated Absences	9,162,133
Special Assessment Debt	3,070,000
Arbitrage	542,069
OPEB Liability	1,799,443
Accrued Interest Payable	<u>1,510,540</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	\$ <u>183,505,705</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.” The details of this difference are as follows:

Principal Repayments	
General Obligation Debt	\$ 12,600,000
Due to Other Governments	294,443
Special Assessment Debt	835,000
Debt Issued or Incurred:	
General Obligation Debt	(43,644,508)
Due to Other Governments	<u>(1,000,000)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(30,915,065)</u>

Another element of that reconciliation states “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Arbitrage	\$ (214,692)
OPEB Liability	(851,595)
Compensated absences	(1,503,766)
Accrued interest	(433,811)
Amortization of premium on General Obligation Debt	<u>237,697</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(2,766,167)</u>

### 3. DEPOSITS AND INVESTMENTS

#### A. Deposits and Investments for the City of Spokane

The City has the authority to invest in both pooled investments (Treasurer's Cash Investments) and fund investments. The Chief Financial Officer has the authority to determine the availability of funds for both pooled and fund investments and takes into consideration such needs as requests of individual fund managers, current cash needs, lead time, minimum investment amount and maturities necessary to avoid sacrifice of interest earnings. Interest earnings on Treasurer's Cash Investments are credited to the General Fund.

#### **Deposits**

At year end the carrying amount of the City's deposits was \$390,465,770. These deposits consisted of Certificates of Deposit (CD's), money market accounts at banks, and bank savings and checking accounts. All of these deposits are entirely insured by pledged collateral on deposit with the Washington State Public Deposit Protection Commission (WSPDPC). Effective October 3, 2008, the basic limit on federal deposit insurance coverage was temporarily increased from \$100,000 to \$250,000 per depositor, through December 31, 2009. Deposits also include amounts deposited with Washington State's Local Government Investment Pool (LGIP).

#### **Credit Risk**

The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category 1 risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

#### **Custodial Credit Risk**

Per GASB 40 guidelines the LGIP balances are also not subject to custodial credit risk. The Washington Public Deposit Protection Commission provides security for public treasurers by protecting public deposits which exceed the amount insured by the FDIC. Total deposits by a single treasurer may not exceed the depository's Washington proportional net worth. A public depository may accept public deposits in total not to exceed one and one-half times its Washington proportional net worth or thirty percent of total public funds on deposit statewide. If a depository's public fund deposits exceed either of these limitations, it must collateralize excess deposits at one hundred percent. In addition, a depository must meet certain financial standards set by the Commission. Any public depository which does not comply with these financial standards is required to collateralize all of its public deposits at one hundred percent.

#### **Interest Rate Risk**

Certificates of Deposit on hand at December 31, 2008 total \$140,500,000 and the weighted average maturity is .97 years. The Local Government Investment Pool is an un-rated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days.

## Investments

As of December 31, 2008, the City of Spokane had the following investments:

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>
U.S. Agencies	\$ 207,631,868
LID Progress Warrants	2,700,513
Total	\$ 210,332,381

The weighted average maturity of the U.S. agency investments is 3.93 years. Progress warrants are issued in payment for construction projects for the City's local improvement districts. The warrants are interest bearing and are redeemed once long term bonds are issued following completion of the projects. All warrants are claims and liens against the local improvement fund.

## B. Deposits and Investments for the Spokane Employees' Retirement System (SERS)

### Deposits

The Federal Deposit Insurance Corporation (FDIC), effective October 3, 2008, temporarily increased federal deposit insurance coverage from \$100,000 to \$250,000, per depositor, through December 31, 2009. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000.

<u>DEPOSITS</u>	<u>12/31/08</u>
Cash held by Treasurer	\$ 136,650
Collective Trust	21,000,665
Total	\$21,137,315

SERS' large cash and short-term deposit position at December 31, 2008 is attributable to a restructuring of its investment portfolio, which was in process at year-end, and the extreme volatility in the investment markets which occurred during the latter part of the year.

### Investments

The Spokane Employees' Retirement System's investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan. SERS investments are categorized to give an indication of the level of risk assumed by the Plan at year end.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, also monitors the fund on a regular basis.

In 2007, the Board approved a new asset allocation which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued during 2008. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe that the use of alternative investments is a prudent approach to managing risk.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. Although the SERS' Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. At December 31, 2008, 86% of SERS' fixed income securities are rated AAA, or AAA equivalent, by Standard & Poor's. SERS' fixed income assets, categorized with credit ratings, are as follows as of December 31, 2008:

**Spokane Employees' Retirement System**  
**Schedule of Credit Risk – Fixed Income Securities**  
**December 31, 2008**

Investment Type	Total Market Value	Standard & Poor's Credit Quality Ratings				
		Treasury	Agency	AAA	AA	BBB
Fixed Income						
Government Treasuries	\$ 2,937,518	\$ -	\$ -	\$ -	\$ -	\$ -
Government Agencies	21,570,323	-	1,539,270	20,031,053	-	-
State & Local	1,770,283	-	-	1,111,068	540,389	118,826
Mortgage Backed						
Corp Pass Through	242,590	-	-	150,695	-	91,895
CMOs						
Governmental CMOs	3,918,976	-	3,918,976	-	-	-
Corporate						
Notes & Bonds	4,827,440	-	-	1,347,506	645,718	2,332,617
Asset Backed	1,086,978	-	-	285,585	289,378	512,015
<b>Total Fixed Income</b>	<b>\$36,354,108</b>	<b>\$ 2,937,518</b>	<b>\$ 5,458,246</b>	<b>\$22,925,907</b>	<b>\$ 1,475,485</b>	<b>\$ 3,055,353</b>

Percentage of Fixed Income Portfolio	8.1%	15.0%	63.0%	4.1%	8.4%	1.4%
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**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution or bank failure, the System would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, Deposit and Investment Risk Disclosures guidelines, the System does not have exposure to custodial credit risk.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

**Interest Rate Risk**

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The segmented time distribution of the System's fixed income assets as of December 31, 2008, is listed as follows:

**Spokane Employees' Retirement System**  
**Schedule of Interest Rate Risk – Fixed Income Securities**  
**December 31, 2008**

Investment Type	Total Market Value	Fixed Income Maturities (in years)				
		<1	1 – 5	5 - 10	10 - 30	>30
<b>Fixed Income</b>						
<b>Government</b>						
Treasuries	\$ 2,937,518		2,000,252	659,109	278,157	
Agencies	21,570,323	1,021,094	5,267,427	3,051,633	11,609,892	620,277
State & Local	1,770,283		359,124	938,452	472,707	
<b>Mortgage Backed</b>						
Corp Pass Through	242,590				242,590	
<b>CMOs</b>						
Governmental CMOs	3,918,976		535,747	994,372	2,388,857	
<b>Corporate</b>						
Notes & Bonds	4,827,440		1,833,570	2,089,357	863,101	41,412
Asset Backed	1,086,978		705,241	288,749		92,988
<b>Total Fixed Income</b>	<b>\$ 36,354,108</b>	<b>\$ 1,021,094</b>	<b>\$ 10,701,361</b>	<b>\$ 8,021,672</b>	<b>\$ 15,855,304</b>	<b>\$ 754,677</b>
<b>Percentage of Fixed Income Portfolio</b>		<b>2.8%</b>	<b>29.4%</b>	<b>22.1%</b>	<b>43.6%</b>	<b>2.1%</b>

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2008, 20.7% of the System's portfolio is invested in international mutual funds and a limited partnership of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is \$36.3 million as of December 31, 2008. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System takes foreign currency risk into consideration during the selection and monitoring process of the fund managers.

**C. Deposits and Investments for the Spokane Firefighters' Trust Fund**

**City of Spokane Firefighters' Trust Fund  
Schedule of Credit Risk – Fixed Income Securities  
December 31, 2008**

Investment Type	Total Market Value	Standard & Poor's Credit Quality Ratings AAA
Government Treasuries	\$ 254,883	\$ 254,883
Government Agencies	7,073,437	7,073,437
Total	\$ 7,328,320	\$ 7,328,320
Percentage of Fixed Income Portfolio		100%

**City of Spokane Firefighters' Trust Fund  
Schedule of Interest Rate Risk – Fixed Income Securities  
December 31, 2008**

Investment Type	Total Market Value	< 1 Year	1 – 5 Years
Government Treasuries	\$ 254,883	\$ 254,883	-
Government Agencies	7,073,437	1,008,281	6,065,156
Total	\$ 7,328,320	\$ 1,263,164	\$ 6,065,156
Percentage of Fixed Income Portfolio		17.2%	82.8%



#### 4. PROPERTY TAXES

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

#### PROPERTY TAX CALENDAR

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

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

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2008 was \$2.68 per \$1,000 on an assessed valuation of \$14,388,710, for a total regular levy of \$38,590,680. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Special levies approved by the voters are not subject to the limitations listed above. In 2008, the City levied an additional \$.37 per \$1,000 for Emergency Medical Services for a total additional levy of \$5,367,005.

**5. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2008 was as follows:

<u>Governmental Activities</u>	Beginning Balance Jan 1, 2008	Increases	Decreases	Ending Balance Dec 31, 2008
Capital assets not being depreciated				
Land	\$ 824,318,145	\$ 1,291,610	\$ (30,343)	\$ 825,579,412
Construction in Progress	<u>22,125,744</u>	<u>25,887,851</u>	<u>-</u>	<u>48,013,595</u>
Total capital assets not being depreciated	846,443,889	27,179,461	(30,343)	873,593,007
Capital assets being depreciated				
Buildings	76,505,275	513,282	(119,736)	76,898,821
Improvements other than buildings	20,047,867	1,053,901	-	21,101,768
Machinery and Equipment	74,318,030	6,538,367	(2,666,507)	78,189,889
Infrastructure	<u>898,565,335</u>	<u>12,906,430</u>	<u>(1,958,008)</u>	<u>909,513,757</u>
Total capital assets being depreciated	1,069,436,507	21,011,980	(4,744,251)	1,085,704,235
Less accumulated depreciation for:				
Buildings	(24,372,896)	(1,987,425)	9,067	(26,351,254)
Improvements other than buildings	(8,056,670)	(1,580,732)	-	(9,637,402)
Machinery and Equipment	(47,490,220)	(7,675,597)	1,818,818	(53,347,000)
Infrastructure	<u>(360,265,408)</u>	<u>(21,021,810)</u>	<u>1,667,820</u>	<u>(379,619,398)</u>
Total accumulated depreciation	(440,185,194)	(32,265,564)	3,495,705	(468,955,053)
Total capital assets being depreciated, net	<u>629,251,313</u>	<u>(11,253,584)</u>	<u>(1,248,547)</u>	<u>616,749,182</u>
Governmental activities capital assets, net	<u>\$ 1,475,695,202</u>	<u>\$ 15,925,877</u>	<u>\$ (1,278,890)</u>	<u>\$ 1,490,342,189</u>

<b>Business Type Activities</b>	<u>Beginning Balance Jan 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance Dec 31, 2008</u>
Capital assets not being depreciated				
Land	\$ 19,554,233	\$ 474,182	\$ -	\$ 20,028,415
Construction in Progress	65,356,752	24,713,510	(59,855,441)	30,214,821
Total capital assets not being depreciated	84,910,985	25,187,692	(59,855,441)	50,243,236
Capital assets being depreciated				
Buildings	225,696,396	47,701,711	-	273,398,107
Improvements other than buildings	51,139,982	1,125,774	-	52,265,756
Machinery and Equipment	101,608,505	2,385,187	(1,794,025)	102,199,667
Infrastructure	332,224,886	19,252,500	(88,927)	351,388,459
Total capital assets being depreciated	710,669,769	70,465,172	(1,882,952)	779,251,989
Less accumulated depreciation for:				
Buildings	(123,620,316)	(6,657,068)	-	(130,277,384)
Improvements other than buildings	(14,885,485)	(2,560,461)	-	(17,445,946)
Machinery and Equipment	(54,872,781)	(6,167,648)	1,779,887	(59,260,542)
Infrastructure	(98,459,832)	(5,174,791)	40,466	(103,594,157)
Total accumulated depreciation	(291,838,414)	(20,559,968)	1,820,353	(310,578,029)
Total capital assets being depreciated, net	418,831,355	49,905,204	(62,599)	468,673,960
Business-type activities capital assets, net	\$ <u>503,742,340</u>	\$ <u>75,092,896</u>	\$ <u>(59,918,040)</u>	\$ <u>518,917,196</u>

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

Governmental Activities

General Government	\$	719,313
Judicial		133,501
Public Safety		3,992,539
Physical Environment		186,032
Transportation		22,228,973
Economic Environment		495,326
Culture and Recreation		4,509,880
Total depreciation expense - government activities	\$	<u>32,265,564</u>

Business-Type Activities

Water	\$	3,496,276
Sewer		8,560,475
Solid Waste		8,140,184
Other business-type activities		363,033
Total depreciation expense - business-type activities	\$	<u>20,559,968</u>

## 6. PENSION PLANS

The City participates in four retirement and pension plans. The Spokane Employees' Retirement System, the City of Spokane Firefighters' Pension Fund, and the Police Relief and Pension Fund of the City of Spokane are single-employer defined benefit pension plans. The Law Enforcement Officers and Fire Fighters (LEOFF) system is a contributory multi-employer cost-sharing system operated by the State of Washington.

State and local governmental employers, with some exceptions, are required to measure and disclose an amount for annual pension cost in accordance with the standards described by GASB Statement 27 and 50. The methods and assumptions required for financial reporting are the same methods and assumptions used in determining a plan's funding requirement, and are described in the publicly available actuarial reports for the three pension plans administered by the City of Spokane. Those reports may be obtained by writing to the Retirement Department, City Hall, 808 West Spokane Falls Blvd, Suite 604, Spokane, Washington, 99201, or by calling (509) 625-6330.

Pension expense for the LEOFF system is equal to the employer's contractually required contributions and a liability, if any, for unpaid contributions in accordance with GASB Statement 27.

### **Spokane Employees' Retirement System**

#### Plan Description

The Spokane Employees' Retirement System is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters' Retirement System. At December 31, 2008, there are 1,019 retirees and beneficiaries receiving benefits; 94 vested terminated, including portables, entitled to future benefits; and 1,492 active members of the Spokane Employees' Retirement System for a total of 2,605 total members.

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008 who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009 who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.0%. In addition, the normal retirement age for the Plan is 62. Employees hired prior to December 31, 2008, have a choice, at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. For either group, benefits may be reduced according to the retirement annuity option selected.

## Summary of Significant Accounting Policies

### Basis of accounting:

SERS reports in accordance with the provisions of Governmental Accounting Standard Board (GASB) No. 25, Financial Reporting for Defined Benefit Pension Plans as amended by GASB 50 Pension Disclosures. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

### Investments:

All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period. These investment expenses are netted against investment income in the Statement of Changes of Plan Net Assets to arrive at a net investment income amount.

No investments were made in loans to or leases with any Spokane Employees' Retirement System official, government employer official, or party related to a Spokane Employees' System official.

### Contributions

Member and employer contribution rates are established by City Code, Chapter 4.14. The funding of SERS is currently based on the projected unit credit method of funding. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 6.72% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 6.72% of eligible compensation for a combined total of 13.44%. Effective January 1, 2009, member and employer contribution rates changed to 7.75% for a combined total of 15.5%. It is contemplated that the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth. Contributions from employees and the employer totaling \$9,758,065 were made in 2008.

There are no long-term contracts for contributions outstanding and no legally required reserves.

### Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2008, the actuarial liability funded status ratio is 65.5%. The funding ratio decreased by 23.6% during 2008 primarily due to investment losses resulting from extreme volatility in the financial markets. Refer to the Schedule of Funding Progress in the Required Supplemental Information, which follows the notes to the financial statements, for historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Valuation date	December 31, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay
Amortization period*	30 years – closed (29 years remaining on initial unfunded liability)
Asset valuation method	Expected Value Method with five-year smoothing and 90% - 110% market value corridor
Actuarial assumptions:	
Investment rate of return	7.5%
Inflation rate	3.0%
Projected salary increases	Ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of years of service.
Postretirement benefit increases**	0.0%

\*The total contribution rate is fixed at 13.44% of payroll (6.72% for the employer and 6.72% for the employee); however, effective January 1, 2009, the member and employer contribution rates changed to 7.75% for a combined total of 15.5%. The annual required contribution has been developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

\*\*The SERS Board can grant an ad-hoc performance adjustment if the Actuarial Accrued Liability (AAL) Funded Ratio of the System is above 90%, the additional Actuarial Accrued Liability associated with the ad-hoc increase does not cause the AAL Funded Ratio to drop below 90%, and the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad-hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in the SMC 03.05.160.

### Commitments

As of December 31, 2008, the System had unfunded real estate commitments of \$2.5 million to two limited partnership real estate funds.

### **City of Spokane Firefighters' Pension Fund and Police Relief and Pension Fund of the City of Spokane**

The City of Spokane Firefighters' Pension Fund and Police Relief and Pension Fund (Police and Firefighters' Plans) are single-employer defined benefit pension funds established and administered by the City in accordance with the requirements of the Revised Code of Washington.

These pension plans provide retirement and medical benefits to all firefighters and uniformed police who were hired prior to March 1, 1970 (Pre-LEOFF officers). Police and firefighters hired on or after March 1, 1970 but before October 1, 1977, (LEOFF I officers) receive their pensions from the State of Washington and medical coverage from the City of Spokane. Police and firefighters hired after

October 1, 1977 (LEOFF II officers) are not covered by these plans. According to RCW 41.26.090 "Any member having five or more service credit years and having attained the age of fifty years shall be eligible for a service retirement allowance and shall be retired upon the member's written request effective the first day following the date upon which the member is separated from service."

Both retirement plans provide death, disability, and medical benefits. There are 7 active police officers and 19 active firefighters covered under these plans as of December 31, 2008. In addition, there are 267 police and 318 firefighter retirees and beneficiaries receiving benefits from the two plans.

The City is responsible for the medical expenses for active and retired employees covered under these plans. For the Police Relief and Pension Fund, all benefits are funded on a pay-as-you-go basis. The Firefighters' Pension Fund is partially funded with \$20.4 million in assets.

#### Summary of Significant Accounting Policies

##### Basis of accounting:

The Police and Firefighters' Plans report in accordance with the provisions of Governmental Accounting Standard Board (GASB) No. 25, Financial Reporting for Defined Benefit Pension Plans as amended by GASB 50 Pension Disclosures. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due. During the plan year ended December 31, 2007, the City of Spokane adopted Governmental Accounting Standards No. 43 and 45 which relate to other post-employment benefits (OPEB).

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions, if required, are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned.

##### Investments:

All fixed income investments are reflected in the Statement of Plan Assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

The investments of the Firefighters' Pension Fund are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan.

##### Contributions

The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plans. The major sources of funding for the Firemen's Pension fund are property taxes, investment earnings, and the State fire insurance premium tax. The major source of funding, for the Police Pension fund, is local retail sales and use tax. Currently, there are no required employee contributions made to these pension plans.



### Actuarial Information and Significant Actuarial Assumptions

An actuarial valuation report of both plans was performed as of January 1, 2009. For the Firefighters' Pension fund, both a cash flow projection and an actuarial funding plan to liquidate any unfunded liabilities are presented by the actuary; however, for the Police Relief and Pension Fund the actuary only presents a cash flow projection. The city uses these projections to budget annual amounts to provide funds for these benefits. Actual expenditures may be greater or less than budgeted amounts. Actual expenditures may also differ from the Annual Required Contribution (ARC).

#### **Firefighters' Pension Fund**

As of December 31, 2008, the actuarial liability pension funded status ratio is 46%, which increased 5% from January 1, 2007. Refer to the Schedule of Funding Progress in the Required Supplemental Information, which follows the notes to the financial statements, for historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Valuation date	January 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent
Amortization period remaining	30 year closed (28 years remaining amortization period)
Asset valuation method	Fair Market Value
Actuarial pension assumptions:	
Investment rate of return	5.0%
Inflation rate	3.0%
Projected salary increases	4.0%
Postretirement benefit increases	Based upon salary increase assumption, when appropriate, for Firefighters' Pension Fund benefits
	Based upon inflation assumption for some Firefighters' Pension Fund benefits and all LEOFF benefits

#### **Police Relief and Pension Fund**

As of December 31, 2008, the actuarial liability pension funded status ratio is 5%, which increased 1% from January 1, 2007. Refer to the Schedule of Funding Progress in the Required Supplemental Information, which follows the notes to the financial statements, for historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Valuation date	January 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent
Amortization period remaining	30 year closed - (28 years remaining amortization period)
Asset valuation method	Fair Market Value
Actuarial pension assumptions:	
Investment rate of return	4.0%
Inflation rate	3.0%
Projected salary increases	4.0%
Postretirement benefit increases	Based upon salary increase assumption, when appropriate, for Police Pension Fund benefits
	Based upon inflation assumption for some Police Pension Fund benefits and all LEOFF benefits

## Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2

### Plan Description

LEOFF is a cost sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officials, who were first included prospectively effective July 27, 2003, being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for twelve months preceding the date of retirement. Otherwise, it is the average of the highest consecutive twenty-four months' salary within the last ten years of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If a member has at least 20 years or service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Nonvested	3,708
Total	26,330

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contributions rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature by means of a special funding arrangement appropriated 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 requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.16%	5.46%
Employee	0.00%	8.83%
State	N/A	3.53%

\* The employer rates include the employer administrative expense fee currently set at 0.16%. Both the City of Spokane and the employees made the required contributions. The City's required contributions for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2008	\$ 4,051	\$ 2,443,630
2007	\$ 5,258	\$ 2,145,524
2006	\$ 6,167	\$ 1,744,269

**7. OTHER POSTEMPLOYMENT BENEFITS**

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended December 31, 2007, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability.

Plan Description - The City of Spokane Firefighters' Pension Fund and Police Relief and Pension Fund are single-employer defined benefit pension funds established and administered by the City in accordance with the requirements of the Revised Code of Washington. The other postemployment benefit plans are accounted for in these funds.

The Police and Fire other postemployment benefit plans provide medical benefits to all firefighters and uniformed police who were hired prior to March 1, 1970. Police and firefighters hired on or after March 1, 1970, but before October 1, 1977, receive their pensions from the State of Washington and medical coverage from the City of Spokane. Police and firefighters hired after October 1, 1977, are not covered by these plans.

Both plans provide death, disability and medical benefits. There are 7 active police officers and 19 active firefighters covered under these plans as of December 31, 2008. In addition, there are 211 police and 256 firefighter retirees and beneficiaries receiving benefits from the two plans.

The City is responsible for the medical expenses for active and retired employees covered under these plans. For the Police OPEB Plan, all benefits are funded on a pay-as-you-go basis. The Firefighters' OPEB Plan is partially funded with \$20.4 million in assets.

Funding Policy - The City is obligated by ordinance and the Revised Code of Washington to make all required contributions to the plans. The major sources of funding for these plans are property taxes, investment earnings, the State fire insurance premium tax, local retail sales and use tax. There are no required employee contributions made to these plans.

**Police OPEB Plan**

Annual required contribution	Fiscal Year Ending		
	12/31/2007	12/31/2008	12/31/2009
1. Annual Normal Cost (BOY)	\$ 122,334	\$ 122,334	\$ 123,916
2. Amortization of UAAL (BOY)	3,182,539	3,182,539	4,272,759
3. Interest to EOY [(1)+(2)x(i)] *	165,244	165,244	175,867
4. ARC at EOY [(1)+(2)+(3)]	\$ 3,470,117	\$ 3,470,117	\$ 4,572,542
5. Interest on Net OPEB Obligation	\$ 0.00	\$ 47,392	\$ 71,978
6. Adjustments to ARC	0.00	59,620	103,836
7. Annual OPEB Cost [(4)+(5)+(6)]	\$ 3,470,117	\$ 3,457,889	\$ 4,540,684
8. Employer Contributions	2,522,269	2,606,294	2,845,000
9. Change in Net OPEB Obligation [(7)+(8)]	947,848	851,595	1,695,684
10. Net OPEB Obligation at BOY [(11 Prior Year)]	\$ 0.00	\$ 947,848	\$ 1,799,443
11. Net OPEB Obligation at EOY [(9)+ 10)]	\$ 947,848	\$ 1,799,443	\$ 3,495,127
12. Percentage Funded	72.7%	75.4%	62.7%

\* "i" is the assumed interest rate that year: 5.0% in 2007, 5.0% in 2008, 4.0% in 2009

\*\* Estimated employer contributions based upon expected benefit payments in 2009. Estimated amounts will be replaced at year end with actual amounts.

**Firefighters OPEB Plan**

**Annual required contribution**

	Fiscal Year Ending		
	12/31/2007	12/31/2008	12/31/2009
1. Annual Normal Cost (BOY)	\$ 241,778	\$ 241,778	\$ 247,663
2. Amortization of UAAL (BOY)	3,241,365	3,241,365	3,857,666
3. Interest to EOY $[(1)+(2) \times (i)]^*$	174,157	174,157	205,266
4. ARC at EOY $[(1)+(2)+(3)]$	\$ 3,657,300	\$ 3,657,300	\$ 4,310,595
5. Interest on Net OPEB Obligation	\$ 0.00	\$ 0.00	\$ 0.00
6. Adjustments to ARC	0.00	0.00	0.00
7. Annual OPEB Cost $[(4)+(5)+(6)]$	\$ 3,657,300	\$ 3,657,300	\$ 4,310,595
8. Employer Contributions	3,657,300	3,657,300	4,310,595
9. Change in Net OPEB Obligation $[(7)+(8)]$	0.00	0.00	0.00
10. Net OPEB Obligation at BOY $[(11 \text{ Prior Year})]$	\$ 0.00	\$ 0.00	\$ 0.00
11. Net OPEB Obligation at EOY $[(9)+ 10]$	\$ 0.00	\$ 0.00	\$ 0.00
12. Percentage Funded	100.00%	100.00%	100.00%

\* "i" is the assumed interest rate that year: 5.0% in 2007, 5.0% in 2008, 5.0% in 2009

\*\* Estimated employer contributions based upon matching the ARC. Estimated amounts will be replaced at year end with actual amounts.

**Funded Status\***

	Firefighters OPEB Plan		Police OPEB Plan	
Valuation Date	January 1, 2009		January 1, 2009	
Actuarial Value of Assets	\$	5,133	\$	0.00
Actuarial Accrued Liability	\$	65,479	\$	74,045
Unfunded Actuarial Accrued Liabilities (UAAL)	\$	60,346	\$	74,045
Funded Ratio		8.00%		0.00%
Covered Payroll		N/A		N/A
UAAL – Percentage of Covered Payroll		N/A		N/A

\* rounded to thousands

**Actuarial Methods and Assumptions**

	Firefighters OPEB Plan	Police OPEB Plan
Valuation Date	January 1, 2009	January 1, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	30 year, closed January 1, 2007	30 year, closed January 1, 2007
Remaining Amortization Period	28 years	28 years
Asset Valuation Method	Market Value	N/A

**8. RISK MANAGEMENT**

The City is self-insured for Unemployment Insurance, Workers' Compensation, General Liability and Medical/Dental benefits. Unrestricted net assets (deficit) in the self-insurance funds as of December 31, 2008 and 2007 are as follows:

	2008	2007
Risk Management Fund	\$ 11,049,955	\$ 10,600,101
Worker's Compensation Fund	2,070,644	(691,458)
Unemployment Insurance Fund	1,880,836	1,809,669
Self Funded Medical/Dental Fund	6,774,374	5,386,625

The City carries the following excess insurance coverages.

Workers' Compensation: The City carries \$10 million excess Worker's Compensation insurance above its self-insured retention of \$1,000,000.

General and Automobile Liability: The City carries \$10 million excess general and automobile liability insurance above its self-insured retention of \$1,000,000.

Property/Boiler and Machinery: The City carries \$100 million loss limit for all risk property insurance and carries boiler and machinery insurance, with a deductible of \$5,000, and coverage up to \$50 million loss limits. The City also carries property coverage for its hydro dam in the amount of \$95 million, with a \$1 million self-insured retention, and property coverage of the River Park Water Reclamation Facility in the amount of \$140 million, with a \$1 million self-insured retention. In addition, the hydro dam and the River Park Water Reclamation Facility have boiler and machinery coverage up to \$1 million, with a \$100,000 deductible, under the City's Boiler and Machinery policy.

#### Claims Liability Valuation

In 2007 the City conducted an actuarial review to determine the estimated claims liability for the Risk Management and Workers' Compensation funds. The estimated loss reserves for the Risk Management fund totaled \$3,975,601 and the Workers' Compensation fund totaled \$5,753,187. The Self-Funded Medical-Dental fund reported IBNR claims of \$2,486,497 for 2008. Claims expenses are recognized in the Self-Funded Medical-Dental fund and the Unemployment Compensation funds for claims processed through the fiscal year-end. No IBNR claims are reported in the Unemployment Compensation Fund. All self-insured funds are responsible for collecting interfund premiums and for paying claims settlements. Interfund premiums are assessed on the basis of exposure and claims experience and are reported as revenues and expenses.

Changes in the balances of claims liabilities during the past two years are as follows:

	<b>Risk Management</b>		<b>Workers' Compensation</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Balance January 1, 2008	\$ 2,685,643	\$ 12,882,292	\$ 2,672,927	\$ 2,907,428
New claims incurred	2,326,663	1,527,856	2,046,696	1,615,844
Adjustments for Prior Claims	(1,606,046)	(9,896,560)	964,173	436,233
Claims Payable	<u>979,796</u>	<u>(1,827,945)</u>	<u>(2,454,526)</u>	<u>(2,286,578)</u>
Balance December 31, 2008	\$ 4,386,056	\$ 2,685,643	\$ 3,229,270	\$ 2,672,927

#### 9. SHORT-TERM DEBT

At December 31, 2008, the City had outstanding \$ 578,999 of local improvement district (LID) progress warrants. As construction is done on LID projects, progress warrants are issued to contractors. The city treasurer disburses funds to the contractors and carries the progress warrants as treasurer's cash investments. When special assessment bonds are sold, the progress warrants are redeemed. The current progress warrants have interest rates ranging from 5.47% to 6.06%. A summary of progress warrant activity for 2008 follows:

Balance, January 1, 2008	\$	1,978,437
Progress warrants issued		722,076
Progress warrants redeemed		<u>(2,121,514)</u>
Balance, December 31, 2008	\$	<u>578,999</u>

**10. LONG-TERM DEBT AND LEASES**

**A. Long Term Debt**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$186,981,000. During the year, general obligation bonds totaling \$42,900,000 were issued to finance development, construction and improvements to the City's park and recreational facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
2003 LTGO	Governmental Activities	2.75% - 5.00%	\$ 7,195,000
2003 LTGO	Governmental Activities	1.50% - 5.25%	10,690,000
2004 UTGO	Governmental Activities	3.00% - 5.25%	9,080,000
2005 LTGO	Governmental Activities	5.00%	2,855,000
2005 LTGO	Refunding – Governmental & Business-Type Activities	5.00%	2,865,000
2005 LTGO	Governmental Activities	4.34% - 5.34%	24,150,000
2005 UTGO	Refunding – Governmental Activities	3.00% - 4.00%	7,550,000
2007 UTGO	Governmental Activities	4.00% - 5.00%	45,815,000
2007 UTGO	Refunding – Governmental Activities	4.00% - 5.00%	7,490,000
2008 UTGO	Governmental Activities	3.50% - 5.00%	42,900,000
Total General Obligation Bonds			<u>\$ 160,590,000</u>

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

	Principal	Interest	Total Requirements
2009	\$ 10,415,000	\$ 7,991,688	\$ 18,406,688
2010	9,675,000	6,762,141	16,437,141
2011	7,795,000	6,312,745	14,107,745
2012	8,375,000	5,980,769	14,355,769
2013	8,760,000	5,630,219	14,390,219
2014-2018	33,965,000	23,679,445	57,644,445
2019-2023	47,220,000	16,006,179	63,226,179
2024-2028	30,479,059	3,827,841	34,306,900
2029-2030	3,452,228	238,918	3,691,146
	<u>\$ 160,136,287</u>	<u>\$ 76,429,945</u>	<u>\$ 236,566,232</u>

**Business-Type Activities**

	Principal	Interest	Total Requirements
2009	\$ -	\$ 45,188	\$ 45,188
2010	-	45,188	45,188
2011	-	45,188	45,188
2012	-	45,188	45,188
2013	-	45,188	45,188
2014-2018	-	225,940	225,940
2019-2023	-	225,940	225,940
2024-2028	155,941	224,005	379,946
2029-2030	297,772	44,833	342,605
	<u>\$ 453,713</u>	<u>\$ 946,658</u>	<u>\$ 1,400,371</u>

The City of Spokane has also received government and other loans to provide for the acquisition and construction of capital projects and other purposes. Government and other loans outstanding at year-end are as follows:

Name of Issuance	Purpose	Interest Rate	Debt Outstanding
Public Works Trust Fund Loans	Governmental and Business Type Activities	.50% - 3.00%	\$ 14,856,002
State Community Development Loans	Governmental Activities	0.00%	325,000
State Revolving Loans	Business Type Activities	1.50%	1,333,819
Reimbursement Agreement - Genstar	Business Type Activities	5.40%	75,118
Total Government and Other Loans			<u>\$ 16,589,939</u>

The annual debt service requirements to maturity for government and other loans outstanding are as follows:

**Governmental Activities**

	Principal	Interest	Total Requirements
2009	\$ 248,477	\$ 14,613	\$ 263,090
2010	248,477	12,693	261,170
2011	248,477	10,774	259,251
2012	248,477	8,853	257,330
2013	209,771	6,932	216,703
2014-2018	564,585	21,349	585,934
2019-2023	456,397	7,504	463,901
2024-2028	58,824	294	59,118
2029-2033	-	-	-
2034-2038	-	-	-
2039-2042	325,000	-	325,000
	<u>\$ 2,608,485</u>	<u>\$ 83,012</u>	<u>\$ 2,691,497</u>



**Business-Type Activities**

	Principal	Interest	Total Requirements
2009	\$ 1,373,966	\$ 183,207	\$ 1,557,173
2010	1,337,609	163,395	1,501,004
2011	1,305,699	143,908	1,449,607
2012	1,234,522	125,012	1,359,534
2013	1,236,436	106,787	1,343,223
2014-2018	4,724,400	292,757	5,017,157
2019-2023	2,191,286	74,234	2,265,520
2024-2028	577,536	7,079	584,615
	\$ <u>13,981,454</u>	\$ <u>1,096,379</u>	\$ <u>15,077,833</u>

**Special Assessment Bonds**

Special assessment bonds outstanding at December 31, 2008 were \$3,070,000. Generally, the outstanding amount includes term bonds with an estimated amount of bonds to be retired each year. Bonds will be called yearly, as moneys are available from the collection of property assessments.

LID District Number	Date of Issuance	Date of Final Maturity	Interest Rate	Amount Outstanding 12/31/08	Due Within One Year
205	03/01/99	03/01/11	4.988%	\$ 20,000	\$ 20,000
206	07/15/99	07/15/11	5.409%	20,000	20,000
207	11/15/00	09/15/12	5.950%	85,000	60,000
208	04/01/01	04/01/13	5.500%	30,000	5,000
209	03/15/02	03/15/14	5.500%	280,000	85,000
210	10/15/02	10/15/14	4.750%	210,000	80,000
211	06/15/03	06/15/13	4.280%	230,000	80,000
212	04/01/04	04/01/16	3.480%	110,000	25,000
213	07/01/04	07/01/26	5.000%	425,000	55,000
214	08/15/05	08/15/15	4.376%	310,000	70,000
215	08/01/06	08/01/16	4.500%	265,000	40,000
216	08/15/07	08/15/17	4.600%	890,000	105,000
97216	12/15/00	09/15/12	6.900%	195,000	195,000
Total				\$ <u>3,070,000</u>	\$ <u>840,000</u>

**Revenue Bonds**

The City issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are issued to finance the acquisition and construction of capital projects, and are created by ordinance, adopted by the City Council, and financed from enterprise fund revenues. The original amount of revenue bonds issued in prior years was \$117,395,000. Revenue bonds outstanding at year-end are as follows:

Name of Issuance	Interest Rate	Debt Outstanding
1997 Golf System Refunding	4.00% - 5.25%	\$ 2,320,000
1998 Solid Waste System Refunding	6.00% - 6.50%	13,685,000
2001 Solid Waste System Refunding	4.00% - 5.25%	9,705,000
2005 Solid Waste System Refunding	3.60% - 5.00%	15,545,000
<b>Total Revenue Bonds</b>		<b>\$ 41,255,000</b>

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

	Principal	Interest	Total Requirements
2009	\$ 15,365,000	\$ 2,109,823	\$ 17,474,823
2010	16,165,000	1,281,223	17,446,223
2011	8,720,000	411,945	9,131,945
2012	485,000	52,035	537,035
2013	520,000	27,300	547,300
	<u>\$ 41,255,000</u>	<u>\$ 3,882,326</u>	<u>\$ 45,137,326</u>

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

At December 31, 2008, the City has \$11,807,982 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$19,956,144 in reserves as required by bond indentures.

## B. Changes in Long-Term Liabilities

During the year ended December 31, 2008, the following changes occurred in long-term liabilities:

	Balance Jan 1, 2008	Additions	Reductions	Balance Dec 31, 2008	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 129,836,287	\$ 42,900,000	\$ 12,600,000	\$ 160,136,287	\$ 10,415,000
Less deferred amounts:					
For issuance premiums	2,907,604	744,508	38,243	3,613,869	138,284
On refunding	1,262,334	-	199,454	1,062,880	25,171
Special Assessment Debt with Governmental Commitment	3,905,000	-	835,000	3,070,000	840,000
Government and Other Loans	1,902,928	1,000,000	294,444	2,608,484	248,477
Capital Leases	43,853	-	21,444	22,409	22,409
Claims and Judgments	11,719,950	1,037,404	-	12,757,354	12,215,285
OPEB Liability	947,848	7,115,189	6,263,594	1,799,443	-
Compensated Absences Governmental Activity	8,336,989	1,487,134	-	9,824,123	512,947
Long-Term Liabilities	<u>\$ 160,862,793</u>	<u>\$ 54,284,235</u>	<u>\$ 20,252,179</u>	<u>\$ 194,894,849</u>	<u>\$ 24,417,573</u>
<b>Business-Type Activities:</b>					
Bonds:					
General Obligation Bonds	\$ 453,713	\$ -	\$ -	\$ 453,713	\$ -
Revenue Bonds	52,865,000	-	11,610,000	41,255,000	15,365,000
Less deferred amounts:					
For issuance premiums (discounts)	539,850	1,188,968	1,419,736	309,082	185,606
On refunding	(427,482)	362,284	119,742	(184,940)	(27,901)
Total Bonds Payable	53,431,081	1,551,252	13,149,478	41,832,855	15,522,705
Government and Other Loans	14,348,140	1,030,677	1,397,363	13,981,454	1,373,966
Landfill Liabilities:					
Landfill Closure	10,183,180	4,113,837	-	14,297,017	-
Postclosure Monitoring	2,085,260	-	34,443	2,050,817	-
Compensated Absences Business-Type Activity	2,358,061	69,122	75,279	2,351,904	141,331
Long-Term Liabilities	<u>\$ 82,405,722</u>	<u>\$ 6,764,888</u>	<u>\$ 14,656,563</u>	<u>\$ 74,514,047</u>	<u>\$ 17,038,002</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$661,989 of internal service funds compensated absences are included in the above amounts.

**Legal Debt Margin**

The assessed valuation of the City for year 2009 for purposes of determining the legal debt margin is \$15,348,603,178. Under State of Washington statutes general obligation indebtedness pursuant to a vote of the electorate is limited to 2 1/2% of actual value of taxable property located within the City. Indebtedness without a vote of the people is limited to 1 1/2% of actual value subject to the limitation that total general purpose indebtedness may not exceed 2 1/2% of total valuation. There is a 2 1/2% limitation each for utility purposes and open space and park facilities purposes.

The remaining debt capacities of the City are as follows:

	<u>AMOUNT</u>
General Purposes Voted and Non-Voted Debt - 2 1/2% (1)	\$ 266,674,988
Utility Voted Debt - 2 1/2%	383,715,079
Open Space & Park Facilities Voted Debt - 2 1/2%	<u>333,265,079</u>
Total Remaining Debt Capacity	<u>\$ 983,655,146</u>

(1) Includes \$170,525,734 debt capacity available for non-voted debt.

**C. Leases**

1. Capital Leases

The City entered into a lease agreement June 2003, for financing various pieces of equipment. This lease agreement qualifies as a capital leases for accounting purposes, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The capital assets acquired through capital leases are as follows:

<b>Governmental Activities</b>		<u>2008</u>
Vehicles	\$	153,852
Less: Accumulated Depreciation		<u>(108,313)</u>
Total	\$	<u>45,539</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2008 were as follows:

<u>YEAR ENDED</u> <u>DECEMBER 31,</u>		<b>Governmental</b> <b>Activities</b>
2009	\$	23,418
Less: Amount representing interest		<u>1,008</u>
Present value of net minimum lease payments	\$	<u>22,410</u>

## 2. Operating Leases

The City entered into a long-term operating lease agreement with the Spokane Airport Board, an agency of the City and County of Spokane, for the site of the Spokane Regional Waste to Energy Facility. The lease, as amended, provides for the following rental payments:

- Effective January 1, 2008 the City will pay \$0.07 cents per square foot
- Effective January 1, 2009 the City will pay \$0.078 cents per square foot

The City has the option of renewing the lease for four consecutive five-year periods subject to certain conditions. The lease ends April 30, 2011. Lease payments for the year ended December 31, 2008 amounted to \$143,965.

### Schedule of Minimum Future Rental Payments

Year Ended <u>Dec. 31</u>	Amount
2009	\$ 161,241
2010	161,241
2011	<u>53,747</u>
Total minimum future rental payments	\$ <u>376,229</u>

The City has entered into master contracts for personal computers with Dell Computers. These are operating leases for 3 years for various departments. Lease payments for the year ended December 31, 2008 amounted to \$235,141. The City also leases two Xerox printers, IKON copiers, and a Hitachi SAN Disk Array which are used for all departments for printing and data storage. Lease payments for the year ended December 31, 2008 amounted to \$248,240.

### Schedule of Minimum Future Rental Payments

Year Ended <u>Dec. 31</u>	Amount
2009	\$ 357,119
2010	331,051
2011	<u>334,613</u>
Total minimum future rental payments	\$ <u>1,022,783</u>

11. INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. Interfund balances at December 31, 2008 were as follows:

	Due From Other Funds	Due to Other Funds
General Fund	\$ 4,604,518	\$ 962,543
Nonmajor		
Governmental Funds	6,829,322	8,942,869
Water Fund	1,058,085	750,839
Sewer Fund	272,979	3,472,875
Solid Waste Fund	110,572	902,453
Nonmajor		
Enterprise Funds	115,022	310,418
Internal Service		
Funds	3,003,108	651,609
Total Government Wide	\$ <u>15,993,606</u>	\$ <u>15,993,606</u>

**B. Interfund Transfers**

Interfund Transfers for 2008 are as follows:

	Transfer From:						Total
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Nonmajor Enterprise Funds	Internal Service Funds	
Transfer To:							
General Fund	\$ -	1,925,085	-	-	-	3,000	1,928,085
Nonmajor governmental funds	31,803,926	9,244,046	-	30,256	-	56,400	41,134,628
Sewer Fund	20,000	-	-	-	-	-	20,000
Nonmajor enterprise funds	75,000	-	-	-	-	-	75,000
Internal Service funds	404,709	316,683	17,180	16,757	40,362	88,468	884,160
<b>Total</b>	<b>\$ 32,303,635</b>	<b>\$ 11,485,814</b>	<b>\$ 17,180</b>	<b>\$ 47,013</b>	<b>\$ 40,362</b>	<b>\$ 147,868</b>	<b>\$ 44,041,872</b>

## 12. JOINT VENTURES

The City participates in three joint ventures. These are the Spokane International Airport, the Spokane County Health District, and the Spokane Regional Transportation Council. The City does not contribute any moneys toward the operation of the Spokane International Airport or the Spokane County Health District. General fund monies are contributed to support the Spokane Regional Transportation Council. In 2008, \$53,600 was paid to the Spokane Regional Transportation Council.

Spokane International Airport is jointly operated by the City and County of Spokane through a joint operating agreement in accordance with the "Airport Joint Operating Agreement", dated June 9, 1986. This agreement is pursuant to RCW 14.08.200. The unaudited summary below is from the Airport's comprehensive annual financial report for the fiscal year ended December 31, 2008.

	TOTAL
Total Assets	\$ 239,854,651
Total Liabilities	44,493,644
Total Fund Equity	195,361,007
Total Revenues	45,398,463
Total Expenses	28,885,360
Net Increase in Fund Equity	16,513,103

At December 31, 2008, the airport had \$11,580,739 in long-term revenue bonds outstanding with \$1,712,106 due on the current portion in 2009. The bonds are secured by airport revenues. Airport revenues are derived through user fees, parking fees, leased areas and buildings, federal and state grants and interest from investments. Other long-term debt payable at year-end includes deposits of \$619,902, \$3,040,578 in post-retirement benefits, and \$4,122,474 of accrued environmental liabilities.

The Spokane Airport Board administers the operations of the airport. It is composed of five members, two of which are appointed by the County, two by the City and one non-specific appointee. The City does not exercise any specific control over the budgeting and financing of the airport's activities. The complete financial report may be obtained by contacting the Spokane International Airport, 9000 W. Airport Drive, Suite 204, Spokane, WA, 99224.

The Spokane Regional Health District includes the City, the unincorporated areas of the County and the incorporated towns within the County's borders. The Spokane County Health Board, which governs the district, is composed of three Spokane County Commissioners, three members of the Spokane City Council, two members of the Spokane Valley City Council, the mayor of one smaller incorporated town within the County, and three non-voting at large citizen members.

The Board consists entirely of elected officials, which is specified by State law. The City does not exercise any specific control over the budgeting and financing of the Health District activities. The unaudited summary below is for the fiscal year ended December 31, 2008 for the Spokane Regional Health District.

	TOTAL
Total Assets	\$ 7,692,000
Total Liabilities	2,278,000
Total Fund Equity	5,414,000
Total Revenues	23,266,000
Total Expenses	22,294,000
Net Increase in Fund Equity	972,000



At December 31, 2008 the Health District had no long-term debt outstanding. The complete financial report may be obtained by contacting the Spokane Regional Health District, 1101 W. College Ave., Spokane, WA, 99201.

The Spokane Regional Transportation Council operates under a charter adopted by participating entities that include the City of Spokane, Spokane County and the incorporated towns within the County. In 1965 the Washington State Legislature created the current statutory authority that provided for coordinated regional planning within the State.

The Council operates under a nine-member board consisting of two County Commissioners, two City Council members, one representative from each planning commission, two elected officials representing the incorporated towns and one representative from the Spokane Valley. The board selects management of the Council. Control over collection and disbursement of funds resides with the Council.

The unaudited summary below is for the fiscal year ended December 31, 2008. The Spokane Regional Transportation Council is audited by the Office of State Auditor.

	<u>TOTAL</u>
Total Assets	\$ 165,103
Total Liabilities	3,366
Total Fund Equity	161,737
Total Revenues	1,663,232
Total Expenditures	1,730,883
Decrease in Fund Equity	(67,651)

At December 31, 2008 the Spokane Regional Transportation Council had no long-term debt outstanding. The complete financial report may be obtained by contacting the Spokane Regional Transportation Council, 221 W. First Ave., Suite 310, Spokane, WA, 99201.

### **13. ENTERPRISE FUND DISCLOSURES**

#### **A. Water Fund**

##### Property, Plant and Equipment

Some hydrants and some water mains in the Water fund are recorded at estimated costs.

##### Major Customers of a Segment

The entire operating revenue of the Hydro segment of the Water Fund is received from Avista Corporation in Spokane, Washington.

#### **B. Sewer Fund**

##### Contracts Receivable and Due From Other Governmental Units

During 1982, the City of Spokane and Spokane County entered into an Interlocal Agreement whereby the County agreed to pay \$5,779,709 for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to ten million gallons per day for the County. Payments were adjusted annually using an implicit price deflator with January

1985 as the base period. The final capacity payment was received in 1999. Currently only annually adjusted operations and maintenance flow charges and pretreatment charges are billed to Spokane County under the 1982 Interlocal Agreement.

The City of Spokane and the City of Airway Heights entered into an agreement under which Airway Heights agreed to pay \$2,040,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 680,000 gallons per day for Airway Heights. The final capacity payment was received in 2006. Currently only annually adjusted operations and maintenance flow charges and pretreatment charges are billed to Airway Heights under the interlocal agreement.

The City of Spokane and Fairchild Air Force Base entered into an agreement under which the Base agreed to pay \$3,000,000, in 1992 dollars, for sewage treatment capacity at the Riverside Park Water Reclamation Facility. Per the agreement, the City will process up to 1,000,000 gallons per day for Fairchild. The \$1,236,055 receivable at year-end is offset by deferred revenue in the same amount. Payments are revised annually and are to be collected over approximately the next twenty years as a capital surcharge.

#### **Facility Loss/Re-construction**

On May 10, 2004, digester number three at the Riverside Park Water Reclamation Facility collapsed, resulting in a loss of one-third of the digester capacity at the facility. As a result of this accident, the City Council approved to build two new digesters and to move and expand the related co-generation system. In 2007 the Sewer Fund received compensation from its insurance carrier in the amount of \$2,633,009 for the loss of the Digester Facility.

The new Egg Shaped Digester Facility was completed in 2008. The total cost of the facility including design, construction management and construction was \$46,378,480.

#### **Spokane County Utility Tax Payments**

In October 2003, Spokane County began withholding the portion of its wastewater bill it computed as representing municipal taxes. In November 2003, Spokane County commenced a lawsuit to determine if the municipal taxes should be included as an expense in the calculation of the wastewater treatment rate for Spokane County. In January 2007, an agreement was reached in mediation between the City and Spokane County, which was approved by the Spokane City Council on April 30, 2007.

The agreement resulted in Spokane County paying \$1,500,000 to the City on the outstanding balance of their utility bill and the City removing the tax component from its billings to Spokane County. The County will continue to make payments to the City, on a sliding percentage rate of their charges for wastewater utility services, in lieu of taxes, until the year 2021. Beginning in the year 2022, there will be no further payments in lieu of taxes.

### **C. Solid Waste Management Fund**

#### **Spokane Regional Solid Waste Management System**

Environmental, economic and regulatory concerns led the City and Spokane County, on a joint basis, to conduct a lengthy and extensive investigation into a regional approach to the management, handling and disposal of solid waste collected in the City and other areas of the County that would give priority to disposal methods other than landfilling. This cooperative effort has resulted in the Spokane Regional Solid Waste Management System (the "System").

The City and Spokane County entered into several interlocal agreements, which provide the framework for the management, handling and disposal of solid waste within the service area, consisting of the City, the unincorporated area of the County and the Regional Cities. The City owns and operates the System but neither the City nor the County may use the System to the exclusion of the other. The City is responsible for the financing and construction of all improvements to the System and for the management of the System except with respect to certain major decisions for which the concurrence of the County is required.

The interlocal agreement is for a term of 25 years, or for such longer term as the financing bonds remain outstanding, and will be renewed automatically for successive 20-year terms unless the City and County agree not to renew it.

The System includes a mass burn waste to energy facility; two transfer stations; and three recycling centers located at the facility and the transfer stations. Ash from the waste to energy facility is hauled to the Roosevelt Regional Landfill in South Central Washington.

The waste to energy facility was completed during 1991. Wheelabrator Spokane Inc. operates the facility pursuant to a 20-year operation and maintenance contract with the City. Pursuant to a service contract, the City has agreed to pay a service fee to Wheelabrator Spokane Inc. based on a minimum of 220,000 tons of acceptable waste per year. This quantity of solid waste represents approximately 90 percent of the facility's 248,200 ton contracted capacity.

The City and Puget Sound Power and Light Company, a Washington corporation, entered into an agreement for Firm Power Purchase of energy produced by the Spokane Regional Solid Waste Management System's waste to energy facility. Subject to the terms thereof, the electricity agreement requires Puget Sound Power to purchase all electric output of the Facility, net of in-plant use, for 21 years commencing November 15, 1991.

#### Other Long-Term Receivables

In order to provide funds for the closure, post-closure and remedial actions of Spokane County's pre-existing landfills, the City agreed in an interlocal agreement to provide to the County an amount not to exceed \$20 million. The interlocal agreement states that such costs will be recovered from the County's portion of a surcharge (landfill closure component) on rates charged by the Spokane Regional Solid Waste Management System.

The long-term asset is being amortized based upon the County's annual share of revenue from the landfill closure component. As of December 31, 2008 long-term receivables include the following amounts for Spokane County.

<u>YEAR</u>	<u>COUNTY LANDFILL CLOSURE COSTS</u>	<u>ALLOCATED INTEREST</u>	<u>CLOSURE COMPONENT</u>	<u>BALANCE</u>
1989	\$ 3,975,714	\$ 168,960	\$ -	\$ 4,144,674
1990	1,074,213	365,460	-	5,584,347
1991	988,093	512,233	-	7,084,673
1992	1,926,445	568,323	(1,923,516)	7,655,925
1993	3,817,388	725,447	(1,019,176)	11,179,584
1994	8,218,147	1,071,089	(1,716,679)	18,752,141
1995	-	1,245,044	(1,452,019)	18,545,166
1996	-	1,229,829	(1,776,934)	17,998,061
1997	-	1,192,338	(1,729,730)	17,460,669
1998	-	1,176,737	(1,380,497)	17,256,909
1999	-	1,147,165	(1,724,205)	16,679,869
2000	-	1,105,699	(1,795,750)	15,989,818
2001	-	1,053,634	(1,859,394)	15,184,058
2002	-	997,062	(1,939,543)	14,241,577
2003	-	927,531	(2,041,213)	13,127,895
2004	-	846,074	(2,186,898)	11,787,071
2005	-	550,695	(2,277,507)	10,060,259
2006	-	463,801	(2,238,154)	8,285,906
2007	-	374,906	(2,205,866)	6,454,946
2008	-	286,073	(2,090,179)	4,650,840
<b>TOTAL</b>	<b>\$ 20,000,000</b>			

#### Landfill Closure

On July 21, 1987, the City ceased disposal operations at its Southside Landfill. During 1988, the Southside landfill closure was completed at a total cost of \$5.4 million. These closure costs were paid using previously reserved cash and the total closure amount was recorded as an expense in 1988.

The City started closing the Northside Landfill in 1991. The closure was completed during 1993 for a total cost of \$19.4 million. These closure costs were paid using approximately \$3.1 million of previously reserved cash and \$16.3 million of the Spokane Regional Solid Waste Management System Revenue Bond proceeds. The City Council and Spokane County Board of County Commissioners approved an interlocal agreement which required that tipping fees established by the Spokane Regional Solid Waste Management System shall have a landfill closure component which will provide a source of revenue to the City and the County for the payment of pre-existing landfill costs. The City's portion of the closure component covers the debt service requirements on \$16.3 million of revenue bond proceeds. A Northside landfill closure liability was recorded as a deferred cost on January 1, 1988 and was charged to expense over a 20 year period as these amounts were recovered through rates charged to customers. The deferred cost was fully amortized during 2007.

The City has reserved cash for closure and postclosure costs of landfills. As of December 31, 2008, the amount reserved was \$31,435.

#### Northside Regional Landfill

Beginning in 1992, the City started using a recently completed Northside Regional Landfill for the disposal of by-pass waste and demolition debris. The 16 acre cell has a capacity of approximately 400,000 cubic yards (Phase I) and may be increased an additional 600,000 cubic yards (Phase II). State and federal laws and regulations required the City to place a final cover on the Northside Regional Landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Postclosure care consists of (1)

maintaining the integrity and effectiveness of the final cover; (2) maintaining and operating the leachate collection system; (3) maintaining and operating the ground and surface water monitoring systems; and ; (4) maintaining and operating the gas monitoring systems. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City recognizes a portion of these costs in each operating period based on landfill capacity used as of the balance sheet date.

The \$2.0 million reported as landfill closure liability at December 31, 2008, represents the cumulative amount reported based on the use of 81 percent of the estimated capacity of Phase 1. This landfill has a remaining useful life of approximately 10 to 20 years. The City will recognize the remaining estimated cost of closure of \$.5 million as the remaining estimated capacity (Phase 1) is filled. All amounts recognized are based on what it would cost to perform all closure and postclosure care in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

As of December 31, 2008, the City held \$2.1 million of restricted cash, which is reserved for the closure of the Northside Regional Landfill (Phase 1).

#### Postclosure Landfill Monitoring

The \$14.2 million reported as landfill postclosure care liability at December 31, 2008 represents the cumulative amount required to monitor and maintain the Northside and Southside landfills for the next 20-30 years. All amounts recognized are based on what it would cost to perform all postclosure care in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### Capitalized Interest

For the year ended December 31, 2008, interest cost of \$93,737 was capitalized for City landfill closure costs and \$286,073 was allocated to a long-term receivable for County landfill closure costs.

### **D. Golf Fund**

#### Revenue Bond Covenants

In March of 1991 the City issued \$5.8 million of golf system revenue bonds. These were issued with an average interest rate of 7.1035%. These bonds were issued to finance the construction of a fourth municipal City golf course.

In March of 1997 the City issued \$3.38 million of golf system revenue refunding bonds to partially refund the 1991 bonds. These were issued with an average interest rate of 5.25%. The unrefunded 1991 Golf Bonds have matured and were paid in full on December 1, 2006.

A requirement of the bond ordinance was to establish a rate covenant that provides that net revenue of the Golf fund will equal at least 1.25 times the debt service on the bonds and any additional bonds in that year. The ordinance also provides for the establishment of a reserve account to secure the payment of principal and interest on the bonds. The reserve account for the bonds is an amount equal to the lesser of a) 10% of the bond proceeds, b) the maximum annual debt service, or c) 125% of the average annual debt service on the bonds. There is no intention of issuing additional revenue bonds for golf purposes at this time. The reserve account has been established in the Golf Debt Service fund.

#### 14. COMMITMENTS AND CONTINGENCIES

The Department of Labor and Industries made a determination that four employees of the City were totally disabled as the result of industrial injuries. This determination required the employees to be placed on the pension rolls of the Department of Labor and Industries supplemental pension fund and provided for monthly pension benefits. Since the City is self-insured, the City is responsible for funding these pension benefits. The City has deposited \$427,949 with the State of Washington which represents the full present value (as of June 30, 1995) of the pensions. The State will invest the \$427,949 on the City's behalf and pay pensions each month from that deposit. Interest earnings will accrue to the deposit. Each year, in June, the pensions are actuarially reevaluated and excess moneys, from interest earnings and decreasing present value, are returned to the City. The current value of the deposit, as of June 30, 2008, was \$412,354.

The Downtown Housing Stabilization Program is a program developed by the financial issues task force of the Downtown Capital Needs Committee in the early 1990s. The Stabilization Program was designed to maximize opportunities for private investment to respond to the critical need for affordable housing units for low-income residents of the Downtown Community. The City has assumed the role of Loan Loss Guarantor for loans made by private investors on properties purchased as part of the program. No new loans have been made under this program since 1994.

In August 2003 the City executed an interlocal agreement with the Spokane Public Facilities District (PFD) related to the Spokane Convention Center, the Spokane Opera House, and the Washington State International Agricultural Trade Center (collectively known as the Spokane Center) and the Spokane Veterans Memorial Arena. The purpose of the agreement was to set forth agreements relating to PFD's acquisition of the existing facilities, the expansion of the Spokane Convention Center, and the operation and maintenance of the Spokane Center facilities and the Arena. The agreement terminated the City's operation agreement for the Arena, and transferred 2/3 ownership of the Spokane Center assets to the PFD. The interlocal agreement also laid out certain annual obligations of the City to the PFD related to the Spokane Center:

1. The City will transfer to the PFD all admissions taxes collected at Spokane Center and Arena events.
2. The City will transfer to the PFD all lodging tax revenues collected, after deducting amounts sufficient to service the City's outstanding debt payments related to Spokane Center assets and \$100,000 annually to be allocated by the City's Lodging Tax Advisory Committee.
3. The City's obligation to make operating payments is contingent upon the PFD experiencing an operating loss, as defined in the agreements. In the event of an operating loss, the City's operating payment obligation is limited to the lesser of one half of the estimated incremental sales tax increase related to the expanded facility or the adjusted cap (\$250,000 adjusted by 3% annually).

The Spokane Public Facilities District also agreed to pay the City an annual operating payment equal to 33% of the Spokane Center's operating profit.

In August 2006, the City of Spokane Park Board entered into a purchase and sale agreement to purchase the Downtown YMCA land and facility. The purchase price was \$5,390,000. The Park Board paid \$150,000 in 2006 and \$850,000 in 2007 toward the purchase price as earnest money, leaving a balance due of \$4,390,000. The purchase and sale agreement contemplated a delayed closing while the YMCA completed its fundraising for a new Downtown facility. In October 2008, the YMCA notified the Park Board that it would be ready to close on the purchase and sale agreement within six months.

The Spokane City Council is pursuing two general avenues for funding the acquisition. The first is to use County conservation futures funds under certain conditions and the second is to generate funds from a commercial or other purpose not yet identified. A highest and best use study is being undertaken to review these options and is expected to be completed in late 2009.

With regard to the option of using County conservation futures funds, the Park Board has secured a conditional commitment from Spokane County to assist in financing the acquisition using such funds as authorized pursuant to RCW 84.34.200 *et seq.* Spokane County has indicated a conditional willingness to make annual payments to the Park Board not to exceed \$350,000 per year. The Park Board, however, must rely on the City's General Fund to pay the balance of the purchase price at closing and proposes to rely on the County's payments of conservation futures funds to repay the General Fund over a 20-year period.

The County's commitment to provide conservation futures funds is contingent upon the Park Board demolishing the YMCA building within a certain time to create open green space. Demolition of the building is anticipated to cost approximately \$1,390,000.

## 15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information of the enterprise fund operations for the year ended December 31, 2008 are as follows:

	SOLID WASTE	GOLF FUND	TOTAL
<b>CONDENSED STATEMENT OF NET ASSETS:</b>			
Assets:			
Current assets	\$ 63,298,952	\$ 1,071,584	\$ 64,370,536
Restricted assets	21,693,708	686,300	22,380,008
Capital assets	87,807,010	7,177,490	94,984,500
Other noncurrent assets	6,412,259	-	6,412,259
Total assets	<u>179,211,929</u>	<u>8,935,374</u>	<u>188,147,303</u>
Liabilities:			
Interfund payables	902,453	78,565	981,018
Other current liabilities	18,229,491	542,397	18,771,888
Noncurrent liabilities	41,043,054	2,345,760	43,388,814
Total liabilities	<u>60,174,998</u>	<u>2,966,722</u>	<u>63,141,720</u>
Net assets:			
Invested in capital assets, net of related debt	84,258,510	5,034,404	89,292,914
Restricted	10,079,779	125,206	10,204,985
Unrestricted	24,698,642	809,042	25,507,684
Total net assets	<u>\$ 119,036,931</u>	<u>\$ 5,968,652</u>	<u>\$ 125,005,583</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>			
Operating revenues	\$ 70,714,869	\$ 2,889,540	\$ 73,604,409
Depreciation expense	8,552,041	362,924	8,914,965
Other operating expenses	59,423,662	2,237,098	61,660,760
Operating income (loss)	<u>2,739,166</u>	<u>289,518</u>	<u>3,028,684</u>
Nonoperating revenues (expenses):			
Investment income	3,111,925	68,889	3,180,814
Interest expense	(2,080,925)	(185,507)	(2,266,432)
Other nonoperating revenues (expenses)	(1,141,604)	3,606	(1,137,998)
Transfers in (out)	-	75,000	75,000
Change in net assets	2,628,562	251,506	2,880,068
Prior period adjustment	-	(34,207)	(34,207)
Beginning net assets	116,408,369	5,751,353	122,159,722
Ending net assets	<u>\$ 119,036,931</u>	<u>\$ 5,968,652</u>	<u>\$ 125,005,583</u>
<b>CONDENSED STATEMENT OF CASH FLOWS:</b>			
Net cash provided (used) by:			
Operating activities	\$ 15,560,633	\$ 679,097	\$ 16,239,730
Noncapital financing activities	110,561	75,000	185,561
Capital and related financing activities	(15,420,126)	(875,670)	(16,295,796)
Investing activities	<u>(2,772,392)</u>	<u>55,867</u>	<u>(2,716,525)</u>
Net increase (decrease)	(2,521,324)	(65,706)	(2,587,030)
Beginning cash and cash equivalents	7,712,289	171,127	7,883,416
Ending cash and cash equivalents	<u>\$ 5,190,965</u>	<u>\$ 105,421</u>	<u>\$ 5,296,386</u>



**16. PRIOR PERIOD ADJUSTMENTS**

**Government Wide Statement of Activities**

The Statement of Activities reports a prior period adjustment for governmental activities of \$4,360,518. This amount consists of amounts related to:

Government-wide Statements	\$	23,584
Fund Statements:		
General Fund		2,993,272
Special Revenue Funds		1,135,844
Capital Projects Fund		(288,785)
Internal Service Funds		<u>496,603</u>
Total Prior Period Adjustments	\$	<u>4,360,518</u>

The net adjustment to net assets of governmental activities of \$23,584 relates to the purchase of land not previously recorded on the Statement of Net Assets.

The General Fund reports a net prior period adjustment of \$2,993,272. This adjustment includes an increase in fund balance of \$2,870,880 for tax revenues received from private utilities for the current reporting period, in accordance with the modified accrual basis of accounting. An additional adjustment of \$122,392 was entered to record Utility Tax revenue earned in 2007 from the Sewer Fund.

Special Revenue Funds report a net prior period adjustment of \$1,135,844. The Forfeitures and Contributions Special Revenue Fund reports an increase of \$495,791. This adjustment was due to not all Cash and Equivalents being recorded in the net assets of this fund. Additional adjustments for the Special Revenue Funds include \$38,700 for Rental Rehabilitation Fund and (\$38,700) for the Community Development Rehabilitation. These adjustments are a result of the Community Development Rehabilitation Fund having to reimburse the Rental Rehabilitation Fund for an expenditure that was paid from that fund in error in 2007. The Parks Fund reports a prior adjustment of (\$74,250) due to the Water Fund for services provided in prior years. The Equipment Replacement Fund reports a prior period of \$21,806 for tax revenues received from the State of Washington for the current reporting period, in accordance with the modified accrual basis of accounting. The Street Fund reports an increase of \$692,497 for payment of services provided in prior years to the Sewer Fund.

Capital Projects Funds reported a net decrease in fund balance of \$288,785. This prior period adjustment is to record payment for services provided by the Public Works and Utilities Fund for prior years.

Enterprise (business-type) funds report a decrease to net assets for prior period adjustments of \$774,846. The Water Fund shows an increase to net assets of \$74,250 to record payment from the Parks Fund for services provided in prior years. The Sewer Fund reports a decrease in net assets for payments of services to the General Fund (\$122,392) for prior year taxes, and (\$692,497) to the Street Fund for services provided in prior years.

Internal Service funds report an increase of net for prior period adjustments of \$496,603. The Fleet Services Fund reports an increase in net assets of \$207,818 for the addition of vehicles not previously recorded in net assets. The Public Works and Utilities Fund reports an increase of fund balance of \$288,785 for payment of services provided to the Arterial Street Fund in prior years.

**Fund Statements**

The following Special Revenue funds reported prior period adjustments on their respective fund statements to properly account for long-term notes receivable that had previously been classified as deferred revenue:

Fund Statements		
Miscellaneous Community Development Grant Fund	\$	887,400
Home Program		9,391,717
Housing Assistance Program		116,492
Hope Acquisition Fund		334,495
Community Development Home Rehabilitation Fund		15,250,020
Housing Trust Fund		45,848
Rental Rehabilitation		994,271
Housing Stabilization Fund	\$	<u>171,181</u>
Total		27,191,424

**17. LEGAL MATTERS**

In the normal course of governmental operations the City has claims filed against it for various losses related to tort actions for such things as wrongful acts, injuries, or damages for which a civil action can be brought, and other routine legal proceedings. At any given point in time, there is a recurring volume of tort and other claims for compensation and damages against the City, which could impact expenditures. The City's Risk Management Fund provides for these claims, and insurance is available to pay a portion of damages for certain types of claims. The collective impact of these claims is not likely to have a material impact on the City's financial position. On occasion, a claim or suit may be brought against the City for financial recovery that is not covered by the City's Risk Management Fund or insurance. There are no known pending or anticipated legal matters that would materially affect the financial statements of the City for the year ending December 31, 2008.

**CITY OF SPOKANE EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
(rounded to thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (b) - (a)</u>	<u>Covered Payroll</u>	<u>AAL as a Percentage of Covered Payroll</u>
12/31/08	\$ 193,314	\$ 295,223	65.48%	\$ 101,909	\$ 74,183	137.38%
12/31/07	242,615	272,202	89.13%	29,587	69,262	42.72%
12/31/06	231,576	272,818	84.88%	41,241	67,751	60.87%
12/31/05	216,039	259,792	83.16%	43,752	64,062	68.30%
12/31/04	209,218	240,260	87.08%	31,042	64,252	48.31%
12/31/03	195,723	227,663	85.97%	31,939	61,381	52.03%

**CITY OF SPOKANE EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(rounded to thousands)

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage of ARC Contributed</u>
12/31/08	\$ 8,827	\$ 4,875	55.23%
12/31/07	5,743	4,518	78.68%
12/31/06	6,231	4,287	68.81%
12/31/05	6,016	4,149	68.97%
12/31/04	5,867	4,096	69.81%
12/31/03	4,547	4,017	88.35%

**CITY OF SPOKANE FIREFIGHTERS' PENSION FUND**  
**SCHEDULE OF FUNDING PROGRESS**  
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio	Unfunded AAL (b) - (a)	Covered Payroll	AAL as a Percentage of Covered Payroll
01/01/09	\$ 15,259	\$ 33,364	46%	\$ 18,105	\$ 217	8,343%
01/01/07	13,325	32,728	41%	19,403	380	5,106%
01/01/06	12,480	27,565	45%	15,085	N/A	N/A
01/01/05	12,960	15,590	83%	2,630	N/A	N/A
01/01/04	13,080	10,494	125%	(2,586)	N/A	N/A
01/01/03	11,963	23,999	50%	12,036	N/A	N/A

**CITY OF SPOKANE FIREFIGHTERS' PENSION FUND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(rounded to thousands)

Fiscal Year Ending	Actual Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	\$ 1,360	\$ 1,262	108%
12/31/07	2,082	1,262	165%
12/31/06	1,948	1,948	100%
12/31/05	1,256	1,256	100%
12/31/04	918	-	N/A
12/31/03	2,165	2,165	100%

**CITY OF SPOKANE POLICE PENSION FUND  
SCHEDULE OF FUNDING PROGRESS**  
(rounded to thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (b) - (a)</u>	<u>Covered Payroll</u>	<u>AAL as a Percentage of Covered Payroll</u>
01/01/08	\$ 929	\$ 18,350	5%	\$ 17,421	136	12,810%
01/01/07	659	16,480	4%	15,821	176	8,989%
01/01/06	787	14,332	5%	13,545	N/A	N/A
01/01/05	963	6,538	15%	5,575	N/A	N/A
01/01/04	-	7,174	0%	7,174	N/A	N/A
01/01/03	-	16,239	0%	16,239	N/A	N/A

**CITY OF SPOKANE POLICE PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(rounded to thousands)

<u>Fiscal Year Ending</u>	<u>Actual Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
12/31/08	\$ 1,108	\$ 1,029	108%
12/31/07	1,450	1,029	141%
12/31/06	886	886	100%
12/31/05	983	983	100%
12/31/04	1,524	1,524	100%
12/31/03	966	1,140	85%

**CITY OF SPOKANE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
PENSION PLANS  
DECEMBER 31, 2008**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial methods and significant assumptions used in these valuations are available in the publicly available actuary reports for the three pension plans. These reports may be obtained by writing to the Spokane Employees' Retirement System, City Hall, 808 West Spokane Falls Blvd, Spokane, Washington, 99201 or by calling (509) 625-6330.

**CITY OF SPOKANE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2008**

1	2	3	4	5			6
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Commerce	Economic Adjustment Assistance	11.307	N/A		27,768	27,768	
U.S. Department of Defense	Community Base Reuse Plans	12.612	CL0702-07-01		23,154	23,154	
U. S. Department of Housing and Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B06-MC-530006 B07-MC-530006 Program Income Subtotal		1,141,984 3,364,913 <u>1,876,001</u> 6,382,898	6,382,898	3, 7
U. S. Department of Housing and Urban Development	Emergency Shelter Grants Program	14.231	S07-MC-530002 S08-MC-530002 Subtotal		125,703 <u>58,273</u> 183,976	183,976	7
U. S. Department of Housing and Urban Development	Supportive Housing Program	14.235	N/A N/A N/A N/A Subtotal		94,353 52,543 1,051,398 <u>490,609</u> 1,688,903	1,688,903	7
U. S. Department of Housing and Urban Development	Shelter Plus Care	14.238	N/A N/A N/A N/A N/A Subtotal		78,607 63,063 65,904 62,944 <u>103,737</u> 374,255	374,255	7
U. S. Department of Housing and Urban Development	Home Investment Partnerships Program	14.239	M05-MC-530201 M06-MC-530201 Program Income Subtotal		379,070 1,069,414 <u>261,796</u> 1,710,280	1,710,280	3, 7
U. S. Department of Housing and Urban Development	Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	WA LHB 0279-04 Program Income Subtotal		526,300 <u>18,054</u> 544,354	544,354	
U.S. Department of the Interior / pass-through from WA State Department of Archaeology & Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY07-61017-006 FY08-61018-006 Subtotal	9,000 <u>5,308</u> 14,308		14,308	
U.S. Dept of the Interior	Save America's Treasures	15.929	N/A		1,259	1,259	
U.S. Department of Justice	Enhanced Training and Services to End Violence & Abuse of Women Later in Life	16.528	N/A		1,623	1,623	
U.S. Department of Justice	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	N/A		47,716	47,716	
U.S. Department of Justice	Bulletproof Vest Partnership Program	16.607	N/A		25,218	25,218	
U.S. Department of Justice	Public Safety Partnership & Community Policing Grants	16.710	N/A N/A N/A Subtotal		400,579 3,000 <u>200,823</u> 604,402	604,402	7

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**CITY OF SPOKANE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2008**

1	2	3	4	5			6
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	N/A		36,915		7
			N/A		18,462		
			N/A		<u>40,206</u>		
			Subtotal		95,583	95,583	
U.S. Department of Justice	Anti-Gang Initiative	16.744	N/A		6,476	6,476	
U.S. Department of Labor / pass-through from WA State Employment Security Department	WIA Adult Program	17.258	6112-7108	20,000			7
			6112-7107	92,949			
			6112-1108	802,432			
			6112-7307	141,149			
			6112-1308	172,061			
			6112-1307	732			
			6112-7308	178,655			
			N/A	5,000			
			N/A	29,473			
			N/A	<u>19,500</u>			
Subtotal		1,461,951		1,461,951			
U.S. Department of Labor / pass-through from WA State Employment Security Department	WIA Youth Activities	17.259	6112-7007	935,468			7
			6112-7008	<u>245,703</u>			
			Subtotal	1,181,171		1,181,171	
U.S. Department of Labor / pass-through from WA State Employment Security Department	WIA Dislocated Workers	17.260	6112-7207	97,940			7
			6112-1208	753,010			
			6112-7208	<u>187,799</u>			
			Subtotal	1,038,749		1,038,749	
U.S. Department of Labor / pass-through from WA State Employment Security Department	Incentive Grants - WIA Section 503	17.267	6112-7505-21	18,491			7
			6112-7626-06	8,838			
			6112-7626-10	105,897			
			6112-7627-08	43,617			
			6112-7626-12	55,751			
			6112-7906-02	<u>22,977</u>			
Subtotal	255,571		255,571				
U.S. Department of Transportation / pass-through from WA State Department of Transportation	Highway Planning and Construction  (continued on next page)	20.205	STPH-3867(001)	107,167			
			BRM 3999(009)	79,912			
			SPT E-1220021	272,712			
			P-STPE-TA96(339)	10,174			
			P-STPE-TA96(340)	511			
			STPD 3850(001)	44,385			
			STPUL-3846(004)	1,765,431			
			STPD 3850(005)	4,391			
			STPUL-4001 (001)	153,353			
			CM-9932(034)	1,121,557			
			CM-0002(261)	85			
			CM-3850(004)	977			
			STPD 3850(006)	6,727			

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2008**

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Department of Transportation / pass-through from WA State Department of Transportation	Highway Planning and Construction  (continued from previous page)	20.205	CM-3850(002)	42,427			
			CM-3850(003)	451,570			
			STPUL-3850(007)	296,201			
			STPH 3936(002)	47,523			
			CM-0395(084)	15			
			CM-0291(022)	15			
			STPUL 3856(001)	176,318			
			STPUL 3881(004)	124,018			
			STPH 3900(003)	33,362			
			STPUL 0290(021)	93			
			HLP-1220(020)	<u>86,215</u>			
	Subtotal			4,825,139		4,825,139	
U.S. Department of Transportation	National Motor Carrier Safety	20.218	N/A		64,000	64,000	
U.S. Department of Transportation/ pass-through from WA State Traffic Safety Commission	Occupant Protection	20.602	N/A	4,106			
			N/A	<u>3,942</u>			
			Subtotal	8,048			8,048
National Foundation on the Arts and the Humanities / pass-through from Arts Midwest	Promotion of the Arts-Grant to Organizations and Individuals	45.024	N/A	9,000		9,000	
Environmental Protection Agency	Brownfields Assessment & Cleanup Coop Agreements	66.818	N/A		506	506	
U.S. Dept of Education / passed through from WA State Office of Community Trade & Economic Development	Safe & Drug-Free Schools & Communities State Grants	84.186	07-04	3,750			
			08-04	<u>1,954</u>			
			Subtotal	5,704			5,704
U.S. Dept of Health & Human Services / passed through Aging & Long Term Care of Eastern Washington	Special Programs for the Aging Title III, Part B_Grants for Supportive Services & Senior Center	93.044	07-08:58,41:12(1)	723		723	
U.S. Dept of Health & Human Services / passed through from WA State Dept of Social & Health Services	Special Programs for the Aging Title III, Part C Nutrition Services	93.045	N/A	7,738		7,738	
U.S. Dept of Health & Human Services / passed through from WA State Dept of Transportation	Centers for Disease Control and Prevention -Investigations and Technical Assistance	93.283	GCA-5499	3,350		3,350	
U. S. Department of Homeland Security / pass-through Spokane County Dept of Emergency Management	Homeland Security Grant Program	97.067	N/A	28,514			
			N/A	<u>39,000</u>			
			Subtotal	67,514			67,514
U. S. Department of Homeland Security / pass-through Spokane County Dept of Emergency Management	Metropolitan Medical Response System	97.071	N/A	42,833		42,833	4
Department of Homeland Security	Law Enforcement Terrorism Prevention Program (LETPP)	97.074	N/A		298,263	298,263	
<b>Total Federal Awards Expended</b>				8,921,799	12,080,634	21,002,433	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

CITY OF SPOKANE, WASHINGTON  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 JANUARY 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting for all governmental funds. The accrual basis of accounting is used for all proprietary, non-expendable trust and pension trust funds.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City of Spokane has a revolving loan program for low-income housing. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year for the HOME program was \$ 1,175,210, and for the Community Development Block Grants was \$ 1,851,105. These amounts are presented in this schedule. The amount of principal and interest received in loan repayments for the year for the HOME program was \$ 227,586 (\$261,874 less \$34,288 remitted to HUD for covenant restrictions), and for the Community Development Block Grants was \$ 1,266,823.

NOTE 4 – NONCASH AWARDS – EQUIPMENT

The City received equipment that was purchased with federal Homeland Security funds by the state of Washington. The amount reported on the schedule is the value of the property on the date it was received by the City and priced by Homeland Security.

NOTE 5 – INDIRECT COST RATE

The City did not use an indirect cost rate.

NOTE 6 – INCOME AFTER THE GRANT PERIOD

The City leases property to a private entity that was originally purchased with Federal Highway Planning and Construction dollars. As the grant period has ended there is no reference to these funds on the SEFA but the City is required to restrict these funds for activities eligible for funding under title 23 of the United States Code. The income received was \$120,000; the expenditures for maintenance were \$57,104 for total restricted revenue of \$62,896.

NOTE 7 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the City of Spokane is \$7,041,260 that was passed through to subrecipients that administered their own projects. These subrecipients include the following:

CDBG	1,150,010
Emergency Shelter	183,975
Home	542,773
Human Services	1,901,536
Public Safety	134,976
Workforce Development	<u>3,127,990</u>
	7,041,260



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

**State Auditor**  
**Chief of Staff**  
**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
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