

**CITY OF SPOKANE**

**WASHINGTON**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR**

**JANUARY 1, 2004 THROUGH DECEMBER 31, 2004**

**DIVISION OF FINANCE**

**GAVIN J. COOLEY, CPA**

**CHIEF FINANCIAL OFFICER**

**CITY OF SPOKANE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Table of Contents .....	I-IV
Letter of Transmittal .....	VI-IX
Organization Chart .....	X
List of Elected and Appointed Officials .....	XI

**FINANCIAL SECTION**

Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-12
Basic Financial Statements:	
Government-Wide Financial Statements: .....	13
Statement of Net Assets .....	14
Statement of Activities .....	15
Fund Financial Statements: .....	17
Balance Sheet – Governmental Funds .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund .....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Parking Facilities Fund .....	22
Statement of Net Assets – Proprietary Funds .....	24-25
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	26
Statement of Cash Flows – Proprietary Funds.....	27-28
Statement of Fiduciary Net Assets – Fiduciary Funds .....	29
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	30
Notes to the Financial Statements .....	31-77
Required Supplementary Information: .....	78
Schedule of Funding Progress – Employees' Retirement System .....	79
Schedule of Employer Contributions – Employees' Retirement System .....	79
Schedule of Funding Progress – Firefighters' Pension Fund .....	80

Schedule of Employer Contributions – Firefighters’ Pension Fund .....	80
Schedule of Funding Progress – Police Pension Fund .....	80
Schedule of Employer Contributions – Police Pension Fund .....	80
Notes to the Required Supplementary Information .....	81
Combining and Individual Fund Statements and Schedules: .....	82
Governmental Funds: .....	84
Fund Descriptions .....	85-91
Combining Balance Sheet – Nonmajor Governmental Funds .....	92
Combining Balance Sheet – Nonmajor Special Revenue Funds .....	93-99
Combining Balance Sheet – Nonmajor Debt Service Funds .....	100
Combining Balance Sheet – Nonmajor Capital Projects Funds .....	101-103
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds .....	105-111
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds .....	112
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds .....	113-115
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Street Special Revenue Fund .....	116
Library Special Revenue Fund .....	117
Miscellaneous Grants Special Revenue Fund .....	118
Urban Forestry Special Revenue Fund .....	119
Parks Special Revenue Fund .....	120
Workforce Development Council Special Revenue Fund .....	121
Redevelopment Special Revenue Fund .....	122
Under Freeway Parking Special Revenue Fund .....	123
Parking Meter Revenue Special Revenue Fund .....	124
Parking and Business Improvement Special Revenue Fund .....	125
CBD Tree Maintenance Special Revenue Fund .....	126
Paths and Trails Reserve Special Revenue Fund .....	127
Law Enforcement Information Systems Special Revenue Fund .....	128
Real Estate Rental Special Revenue Fund .....	129
Local Law Enforcement Block Grant Special Revenue Fund .....	130
Human Services Grants Special Revenue Fund .....	131
Forfeitures and Contributions Special Revenue Fund .....	132
Intermodal Facility Operation Special Revenue Fund .....	133
Municipal Art Project Special Revenue Fund .....	134
Hotel / Motel Tax Special Revenue Fund .....	135
Capital Improvement Program Special Revenue Fund .....	136
Real Estate Excise Tax Special Revenue Fund .....	137
Public Safety and Judicial Grants Special Revenue Fund .....	138
Combined Communications Center Special Revenue Fund .....	139
Communications Bldg Maintenance and Ops Special Revenue Fund ....	140
Community Development Special Revenue Fund .....	141
Cumulative Reserve Fund .....	142
Criminal Justice Assistance Special Revenue Fund .....	143
Channel 5 Equipment Reserve Special Revenue Fund .....	144
Park Cumulative Reserve Special Revenue Fund .....	145
Emergency Medical Services Special Revenue Fund .....	146
Nonmajor Special Revenue Fund Totals .....	147
GO Bond Redemption Debt Service Fund .....	148

Schedules of Revenues, Expenditures, and Changes in	
Fund Balances – Budget and Actual: (continued)	
Special Assessment Debt Service Fund .....	149
Special Assessment Guaranty Debt Service Fund .....	150
Nonmajor Debt Service Fund Totals .....	151
Improvement Project Cost – 2001 Capital Project Fund .....	152
Fire Improvement Construction Capital Project Fund .....	153
Arterial Street Capital Project Fund .....	154
City Hall Acquisition and Improvement Capital Project Fund .....	155
Fire Protection Improvement Capital Project Fund .....	156
Capital Improvements – 1999 Fire Capital Project Fund .....	157
Capital Improvements – 1999 Park Capital Project Fund .....	158
Special Assessment Construction Capital Project Fund .....	159
North Sports Complex Capital Project Fund .....	160
Capital Improvements – 2003 Streets Capital Project Fund .....	161
Capital Improvements – 2004 Streets Capital Project Fund .....	162
Capital Improvements – 1992 Capital Project Fund .....	163
Capital Improvements – 1995 Capital Project Fund .....	164
Capital Improvements – 1999 Capital Project Fund .....	165
Nonmajor Capital Project Funds Totals .....	166
Proprietary Funds: .....	167
Fund Descriptions .....	168-169
Combining Statement of Net Assets – Nonmajor Enterprise Funds .....	170
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets – Nonmajor Enterprise Funds .....	171
Combining Statement of Cash Flows – Nonmajor Enterprise Funds .....	172
Combining Statement of Net Assets – Internal Service Funds .....	173-174
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets – Internal Service Funds .....	175-176
Combining Statement of Cash Flows – Internal Service Funds .....	177-180
Fiduciary Funds: .....	181
Fund Descriptions .....	182-183
Combining Statement of Fiduciary Net Assets – Pension Trust Funds .....	184
Combining Statement of Changes in Fiduciary Net Assets – Pension	
Trust Funds .....	185
Combining Statement of Fiduciary Net Assets – Agency Funds .....	186-190

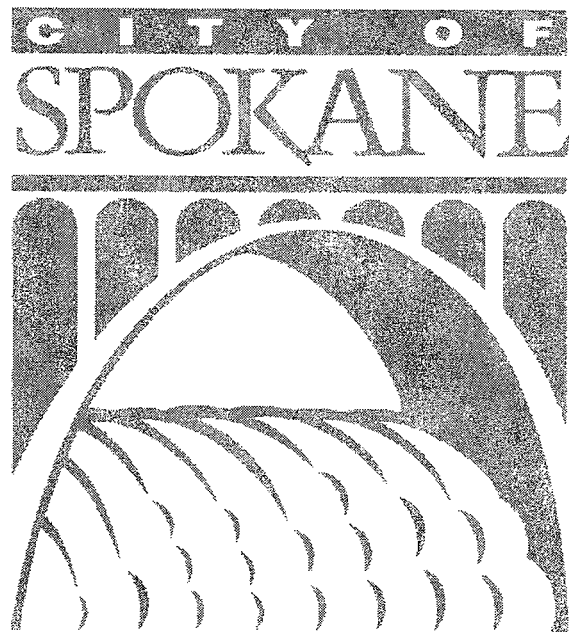


# **STATISTICAL SECTION**

## **TABLE**

I	General Governmental Expenditures by Function .....	193
II	General Governmental Revenues and Tax Revenues by Source .....	194
III	Property Tax Levies and Collections .....	195
IV	Assessed and Estimated Actual Value of Property .....	196
V	Property Tax Rates – All Overlapping Governments .....	197
VI	Principal Taxpayers .....	198
VII	Special Assessment Billings and Collections .....	199
VIII	Computation of Legal Debt Margin .....	200
IX	Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita .....	201
X	Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures.....	202
XI	Computation of Direct and Overlapping Bonded Debt .....	203
XII	Revenue Bond Coverage.....	204
XIII	Demographic Statistics .....	205
XIV	Property Value and Construction Permits .....	206
XV	Miscellaneous Statistics .....	207

THIS PAGE INTENTIONALLY LEFT BLANK



November 9, 2005

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Spokane:

The Comprehensive Annual Financial Report of the City of Spokane, for the fiscal year ended December 31, 2004, is submitted herewith. This report consists of management's representations concerning the finances of the City of Spokane. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Spokane has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Spokane's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Spokane's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City is required by Washington State law, RCW 43.09.260 to have an annual audit by the Office of the Washington State Auditor. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Spokane for the fiscal year ended December 31, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The State Auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Spokane's financial statements for the fiscal year ended December 31, 2004, are fairly presented in conformity with GAAP. The State Auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Spokane was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Spokane's separately issued Single Audit Report.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Spokane's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Spokane was incorporated in 1881. The City serves as the regional trade center for an area that consists of portions of northeastern Washington, southern British Columbia (Canada), northern Idaho, and western Montana. The population of this area is approximately 1.7 million. As a regional center, the City provides higher education and research opportunities, health care facilities, support services for residents and businesses throughout the area, and a large downtown retail and business core.

The City changed from a council-manager form of government to a mayor-council form of government in January 2001. The City's elected officials include a Mayor and seven Council members, including a separately elected Council President. The Mayor has direct responsibility for the administration of all City functions. The Mayor selects a City Administrator who acts as the chief administrative officer and directly oversees City operations as directed by the Mayor. The City Council is the legislative authority of the City and establishes and controls policy for the City. Council members are elected to staggered four-year terms by the qualified electors of the City. Six of the Council members are elected by district. The Mayor and Council President are elected at large.

The City of Spokane provides a full range of services, including public safety, the construction and maintenance of highways, streets and other infrastructure, water, sewer and solid waste services, and recreational activities and cultural events. This report includes all funds of the City that are controlled by or are dependent on the City's executive or legislative bodies. Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of significant subsidies from the City. Based on these criteria the Community Colleges of Spokane, Spokane School District #81, Spokane Housing Authority, Spokane Transit Authority, and the Spokane Public Facilities District are excluded from the accompanying financial statements.

The annual budget serves as the foundation for the City of Spokane's financial planning and control. All departments of the City of Spokane are required to submit requests for appropriation to the Mayor's office each year. The Mayor's office uses these requests as the starting point for developing a proposed budget. The Mayor then presents this proposed budget to the Council for review in November. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than December 31, the close of the City of Spokane's fiscal year. The appropriated budget is prepared by fund, department, and function. Department heads may make adjustments during the year by ordinance or budget transfer depending upon the type of change requested. Purchase orders and approved contracts are encumbered during the year. Encumbrances outstanding at year-end are reappropriated in the following year. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. This comparison is presented for the general fund on page 21 as part of the basic financial statements. For governmental funds other than the general fund, this comparison is presented in the supplementary information section of the financial statements, beginning on page 116.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Spokane operates.

**Local economy.** The City of Spokane currently enjoys a favorable economic environment and local indicators point to continued stability. As a regional center, Spokane provides higher education and research opportunities, hospital facilities of the highest quality, and provides extensive support services for residents and businesses throughout the area. Spokane has a large

and prosperous downtown area. The City is also a major transportation center in the Pacific Northwest. Fairchild Air Force Base, the U.S. military's second largest air-refueling base, is located in the western part of the County. Fairchild currently employs approximately 5,616 military and civilian personnel, generating an annual payroll in excess of \$172 million and maintenance and operations costs of \$144 million. The economic impact of Fairchild on the local economy is estimated at over \$452 million annually. In 2005 the United States Department of Defense Base Realignment and Closure Report (BRAC) affirmed Fairchild's operational mission for future years.

Business leaders have continued to invest in the future and the revitalization of the downtown core. The Downtown Spokane Partnership reports that \$1.2 billion has been privately and publicly invested in nearly 500 construction, renovation, redevelopment and infrastructure projects in and around downtown Spokane. Major economic developments in the region include the 100,000 square foot expansion of the Spokane Convention Center in process, the redevelopment of the River Park Square retail facility, the restored Davenport District and extensive expansion projects at local area hospitals.

The University District is also a major force in the continued economic development of Spokane. This district, located just east of the downtown core, includes plans for over \$85 million in renovations and new construction projects. This district hopes to encourage shared learning and collaboration of local colleges, neighborhoods, and area businesses and anticipates a combined student body of approximately 15,000 students with the next five to ten years.

**Long-term financial planning.** The Mayor and City Council continue to work toward a solution to the ongoing street replacement and repair issues in the City of Spokane. In November 2004, the Citizens approved a plan, by 61% majority, to support \$117 million street repair bonds. In December 2004 the first portion of these bonds of \$24.1 million were issued to move forward on two major projects in 2005. The governing body is also committed to establishing and maintaining a healthy general fund budget reserve. The continuing budgetary stress of the General Fund has been recognized as a critical financial issue. A new budgeting tool called "Priorities of Government" was implemented in 2004 to help better direct the limited resources to deliver efficient and effective service to our community. The City is also on schedule to place 8% of General Fund expenditures in a segregated reserve by year-end 2008.

**Cash management policies and practices.** The City has a written Investment Policy, dated March 18, 1991, which has been adopted by the City Council. All investments of City funds are made in compliance with State law and in accordance with applicable legal interpretations. The City's responsibility in the investment of public funds is to seek the highest rate of return available in the market consistent with the primary concerns of security, legality, and liquidity.

Cash temporarily idle during the year was invested in the State Treasurer's Pool, banker's acceptances, certificates of deposits, repurchase agreements, Treasury bills and agency securities, and LID progress warrants. At year-end there was \$53,759,160 of Treasurer's Cash Investments. Interest earned on these investments in 2004 was \$1,014,979, a decrease of \$331,664 from the previous year.

**Risk management.** The City of Spokane is self insured for Unemployment Insurance, Worker's Compensation, General Liability, and Employee Medical/Dental Benefits. The City accounts for its risk management activities in internal service funds and charges the operating funds annually for the anticipated actuarially projected ultimate incurred claims. Please refer to Note 7, Risk Management on page 53 of this report for further information on excess insurance coverages and unrestricted net asset balances available to pay future claims.

**Pension benefits.** The City of Spokane sponsors three single-employer defined benefit pension plans for its public employees. The Spokane Firefighters' Pension Fund and the Spokane Police Retirement System are limited to public safety employees and beneficiaries employed before March 1, 1970 and are considered closed plans. City of Spokane employees other than police officers or

firefighters are eligible to belong to the Spokane Employees' Retirement System. Member and employer contribution rates are each 6.72% of total compensation and are established by City Code. The City is obligated by ordinance and RCW to make all required contributions to the plans. An actuarial update of the plans was performed as of December 31, 2004.

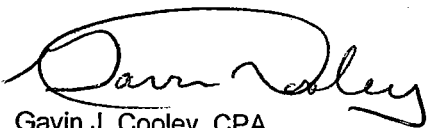
The City of Spokane also provides pension benefits for police officers and firefighters through the Law Enforcement Officers and Firefighters (LEOFF) Retirement System. This plan is administered by the State of Washington Department of Retirement Systems (DRS), a department within the primary government of the State of Washington under a cost sharing multiple employer public employee retirement system. The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payments to DRS.

Additional information on the City of Spokane's pension arrangements can be found in Note 6 in the notes to the financial statements.

### **Acknowledgements**

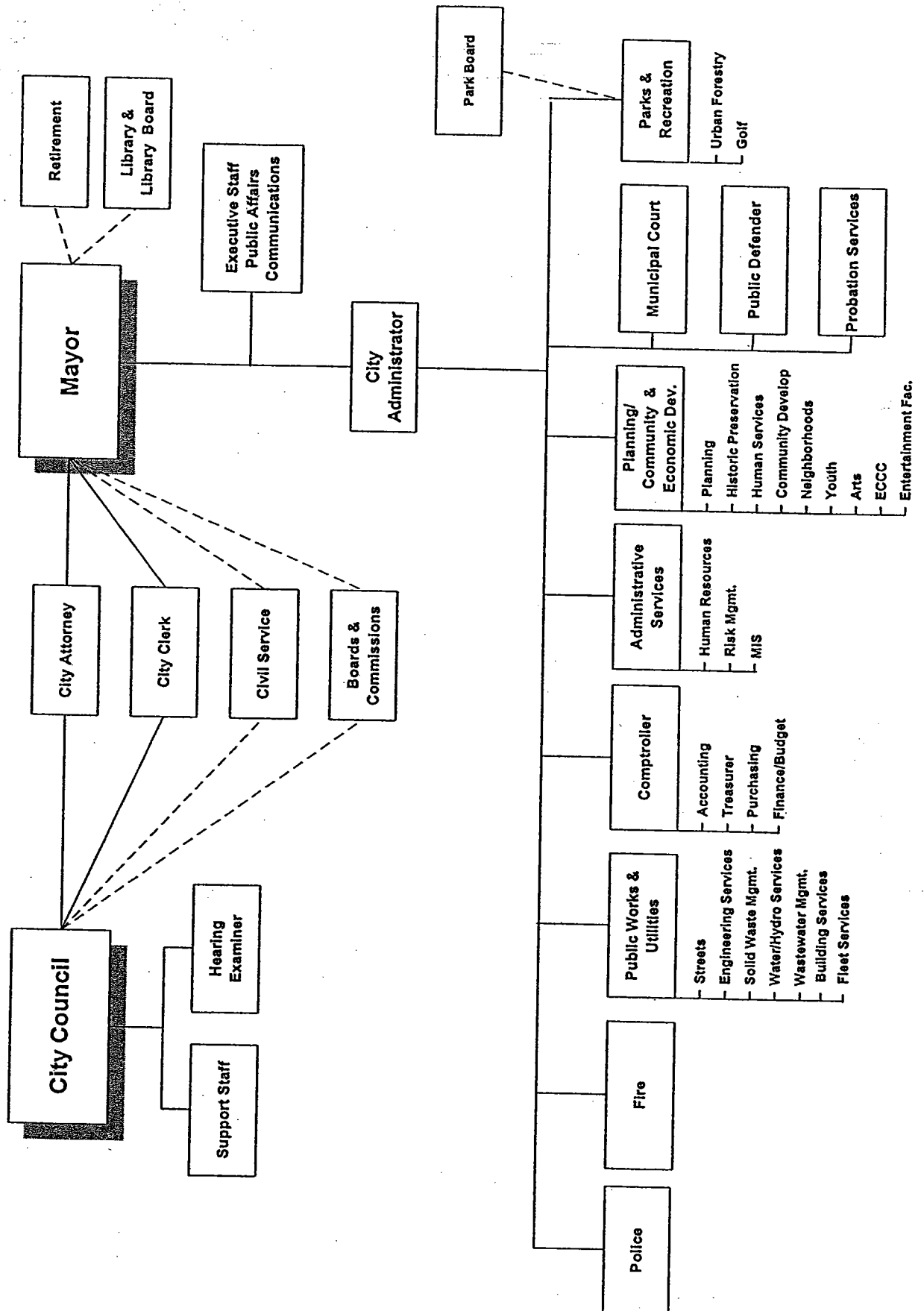
The preparation of this report could not have been accomplished without the efficient and dedicated service of those individuals and departments who have contributed to its publication. I would like to express my appreciation to everyone who contributed to its preparation. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gavin Cooley", with a large, sweeping loop at the end.

Gavin J. Cooley, CPA  
Chief Financial Officer

# City of Spokane Organization Chart





**CITY OF SPOKANE**  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
**DECEMBER 31, 2004**

**ELECTED OFFICIALS**

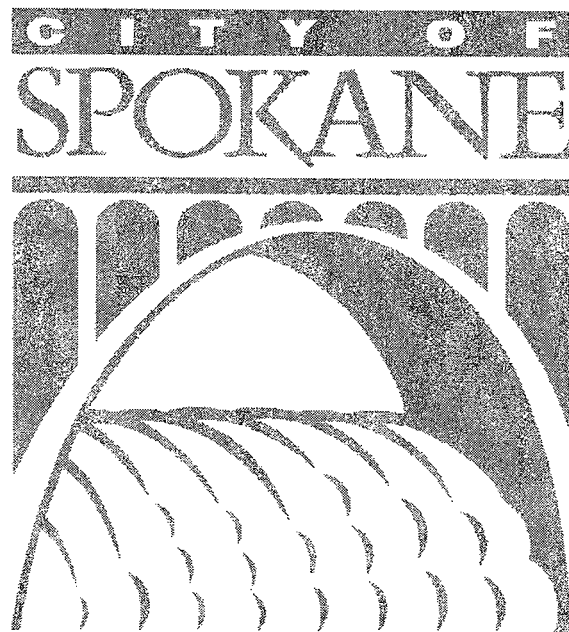
Mayor	James E. West
Council Members	Dennis P. Hession, <i>Council President</i> Joe Shogan, <i>Council President Pro-Tem</i> Robert Apple Al French Cherie Rodgers Brad Stark Mary Verner

**APPOINTED OFFICIALS**

City Administrator	Jack Lynch
Director of Administrative Services	Dorothy Webster
Chief Financial Officer	Gavin J. Cooley, CPA
Director of Public Works and Utilities	Roger Flint
Director of Community and Economic Development	Michael H. Adolfae
City Attorney	Michael Connelly
City Clerk	Terri L. Pfister
Accounting Director	Molly A. Russell
Fire Chief	Robert Williams
Police Chief	Roger Bragdon



THIS PAGE INTENTIONALLY LEFT BLANK





**Washington State Auditor  
Brian Sonntag**

**INDEPENDENT AUDITOR'S REPORT**

November 9, 2005

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, 2004, as listed in the table of contents. 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. 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, Spokane County, Washington, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General and Parking Facilities Special Revenue funds, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.


The management's discussion and analysis on pages 3 through 12 and pension trust fund information on pages 78 through 81 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining and individual fund statements and schedules on pages 82 through 190 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to 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.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

## 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, 2004. 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 \$656,812,662 (net assets) for the fiscal year reported.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$428,090,065 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$35,033,591 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$193,689,006 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$92,339,479 this year. This compares to the prior year ending fund balance of \$84,005,908, showing a moderate increase of \$8,333,571 during the current year. Unreserved fund balance of \$82,166,717 for fiscal year 2004 shows a \$10,179,011 increase from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,669,116, or 1.3% of total General Fund expenditures including transfers and 1.4% of total General Fund revenues including transfers.
- Overall, the City maintains a strong financial position, and is continuing to invest in the local economy, despite ongoing budgetary pressures.

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 utility billing and code enforcement 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 14 & 15 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 and for the Parking Facilities 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 18-22 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 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 \$ 656,812,662. The following table provides a summary of the City's net assets:

**Summary of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets:</b>						
Current & other assets	\$ 149,089,255	138,997,606	\$ 170,822,704	175,507,140	\$ 319,911,959	314,504,746
Restricted assets	21,350,000	22,280,000	29,602,904	29,357,762	50,952,904	51,637,762
Capital assets	188,698,763	169,211,765	414,492,787	394,784,375	603,191,550	563,996,140
Total assets	359,138,018	330,489,371	614,918,395	599,649,277	974,056,413	930,138,648
<b>Liabilities:</b>						
Current liabilities	16,815,766	13,209,657	11,548,267	12,109,237	28,364,033	25,318,894
Long-term liabilities	173,380,995	122,962,233	115,498,723	127,896,724	288,879,718	250,858,957
Total liabilities	190,196,761	136,171,890	127,046,990	140,005,961	317,243,751	276,177,851
<b>Net assets:</b>						
Capital assets, net of debt	111,774,835	95,390,666	316,315,230	284,192,264	428,090,065	379,582,930
Restricted	19,851,012	25,971,586	15,182,579	15,219,593	35,033,591	41,191,179
Unrestricted	37,315,410	72,955,229	156,373,596	160,231,460	193,689,006	233,186,689
Total net assets	\$ 168,941,257	194,317,481	\$ 487,871,405	459,643,317	\$ 656,812,662	653,960,798

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 8.9 to 1 and 13.6 to 1 for business type activities. For the City overall, the current ratio is 10.8 to 1. We consider these ratios strong.

The City reported positive balances in net assets for both governmental and business-type activities. Net assets decreased \$25,376,224 for governmental activities and increased by \$28,228,088 for business-type activities, for a net government-wide increase of \$2,851,864 in net assets. The decrease in the governmental activities' net assets was caused by the issuance of debt for the settlement of legal issues related to the River Park Square development. The City did not acquire an asset that corresponds to this debt, which totaled approximately \$29.7 million at year-end; therefore the effect of the transaction decreased the City's governmental net assets. River Park Square was structured as a public-private partnership on the basis of public and economic benefit expected to be derived from a reenergized central business district. The central business district has indeed experienced a substantial resurgence in the years since the completion of River Park Square; however, it is not clear how much of the increased activity may be directly attributed to the project.

Note that approximately 66% of the governmental activities' net assets are related to capital (with 37% of the capital assets being infrastructure). Also, note that the City has not capitalized their total infrastructure at December 31, 2004 but will do so in subsequent years. The City uses these capital assets to provide services to its citizens. With business-type activities, the City has spent approximately 65% of its net assets on capital (with 43% 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 65% 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 12/31/04**

	Governmental Activities		Business-Type Activities		Total		% Of Total
	2004	2003	2004	2003	2004	2003	
Revenues:							
Program:							
Charges for							
services	\$ 23,354,106	27,349,410	\$ 136,145,078	136,382,936	\$ 159,499,184	163,732,346	51%
Operating grants	8,019,006	8,934,607	813,567	-	8,832,573	8,934,607	3%
Capital grants	15,503,864	8,065,265	8,446,944	11,621,021	23,950,808	19,686,286	8%
General:							
Taxes	118,334,998	120,341,369	-	-	118,334,998	120,341,369	38%
Interest	2,232,489	2,303,789	2,250,270	2,435,759	4,482,759	4,739,548	1%
Disposition of capital assets	(422,139)	(17,317,123)	-	-	(422,139)	(17,317,123)	0%
Total revenues	167,022,324	149,677,317	147,655,859	150,439,716	314,678,183	300,117,033	100%
Program expenses:							
General							
government	10,336,418	8,787,701	-	-	10,336,418	8,787,701	3%
Judicial	5,636,339	4,898,566	-	-	5,636,339	4,898,566	2%
Public safety	84,419,058	76,238,638	-	-	84,419,058	76,238,638	27%
Physical environment	1,652,843	2,383,071	-	-	1,652,843	2,383,071	1%
Transportation							
Health and human services	72,311	50,074	-	-	72,311	50,074	0%
Economic environment	44,985,529	12,262,366	-	-	44,985,529	12,262,366	14%
Culture and Recreation	21,478,257	25,237,838	-	-	21,478,257	25,237,838	7%
Interest	6,094,736	6,101,533	-	-	6,094,736	6,101,533	2%
Water	-	-	23,796,518	22,210,151	23,796,518	22,210,151	8%
Sewer	-	-	30,487,177	28,014,935	30,487,177	28,014,935	10%
Solid Waste	-	-	59,373,575	58,032,970	59,373,575	58,032,970	19%
Other business types	-	-	6,573,215	6,398,106	6,573,215	6,398,106	2%
Total expenses	192,300,188	151,091,705	120,229,485	114,656,162	312,529,673	265,747,867	100%
Excess revenues (expenses)	(25,277,864)	(1,414,388)	27,426,374	35,668,077	2,148,510	34,369,166	
Transfers	(118,148)	115,477	118,148	(115,477)	-	-	
Change in net assets	(25,396,012)	(1,298,911)	27,544,522	35,668,077	2,148,510	34,369,166	
Prior period adjustments	19,788	23,469,997	683,566	(694,914)	703,354	22,775,083	
Beginning net assets	194,317,481	172,146,395	459,643,317	424,670,154	653,960,798	596,816,549	
Ending net assets	\$ 168,941,257	194,317,481	\$ 487,871,405	459,643,317	\$ 656,812,662	653,960,798	

**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 24% of these revenues, and business and



occupation taxes total 21%. Charges for services totaled 14% of these revenues and grants and contributions totaled 14%. Note that program revenues cover approximately 24% of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 76% 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 44% of the City's total governmental expenses. Culture and recreation costs make up 11% of the total governmental expenses. The transportation expenses are 9% of governmental expenses. In 2004, economic environment expenses totaled 23% of the total governmental expenses due to the Riverpark Square development expenses discussed previously.

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 was placed on the City's taxpayers by each of these functions.

Governmental Activities						
		Total Cost Of Services			Net Cost Of Services	
		2004	2003		2004	2003
General government	\$	10,336,418	8,787,701	\$	(644,249)	(1,532,477)
Judicial		5,636,339	4,898,566		2,019,761	1,025,996
Public safety		84,419,058	76,238,638		79,869,235	70,405,694
Physical environment		1,652,843	2,383,071		1,527,858	2,315,399
Transportation		17,624,697	15,131,918		2,992,040	7,838,750
Health and human services		72,311	50,074		(88,406)	(46,753)
Economic environment		44,985,529	12,262,366		36,823,664	4,199,909
Culture and recreation		21,478,257	25,237,838		16,828,603	16,434,372
Interest		6,094,736	6,101,533		6,094,736	6,101,533
Total	\$	192,300,188	151,091,705	\$	145,423,212	106,742,423

Program revenues covered the program expenses for only two functions, general government and health and human services. The capital contributions of \$1.6 million in the general government function related to the collections of special assessments from property owners for the construction of sidewalks and alleys, etc. These projects, completed through local improvement districts, resulted in an excess of program revenues over expenses. 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 13.6 to 1, which is an extremely healthy ratio. The business-type activities report capitalized assets of over \$414 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 provides 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 over \$3.5 million or 2.8% more than 2003, with operating expenses 4.9% higher than 2003. Within the total business-type activities of the City, these

enterprise funds reported \$25 million operating income compared to operating income of \$26.6 million for the prior year. A detailed discussion of the major enterprise funds is presented in a separate section below.

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

### ***Governmental funds***

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately \$92.3 million. Of this year-end total, \$82 million is unreserved indicating availability for continuing City service requirements. Legally restricted fund balances (i.e., the reserved fund balances) include \$8.7 million committed to service debt and \$441,401 committed to capital projects.

The total ending fund balances of governmental funds show an increase of \$8.3 million or 9.9% over the prior year. This increase is primarily the result of the events and programs described within the analysis of the City's governmental activities.

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

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$8.1 million. In the prior year, the fund balance decreased by \$2.9 million. Unreserved fund balance as a percentage of expenditures was 1.7% of annual operations. The City's management recognizes that it would be beneficial to build up a more robust reserve to ensure the long-term financial health of the General Fund. The steps they have taken to deal with this issue are discussed in the *Budgetary Highlights* section of this analysis.

Taxes totaling \$89.1 million made up 80% of total general fund revenue in 2004 as compared to 80% in 2003. All other sources of revenue were very similar to 2003 as well.

General fund expenditures increased \$6.3 million or approximately 7%. Public safety made up 70% of total expenditures. Since the general fund supports a number of programs in other funds, \$29 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 nine internal service funds.

***The Water System*** - The water system reports net assets of over \$130 million, with 78% tied up in capital assets. The current ratio for this fund is 18.4 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water system reported operating income of \$1.8 million with a total increase in net assets of approximately \$3.6 million after capital contributions and transfers in from other funds. These amounts were less favorable than related amounts of \$4.7 million and \$7.4 million in 2003.

***The Sewer System*** – The sewer system reports net assets of over \$239 million, with 79% invested in capital assets. The current ratio for this fund is 12.2 to 1 which provides this fund with adequate resources to cover cash flow issues.

The sewer system reported operating income of \$8.4 million with a total increase in net assets of approximately \$15.8 million after capital contributions and transfers in from other funds. These amounts were slightly down from the 2003 related amounts of \$10.6 million and the \$17.5 million. The 2004 capital contributions of \$7.5 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 \$38,687,181, which is does not show a change from the prior year.

**The Solid Waste System** – The solid waste fund reports net assets of over \$103 million. The investment in capital assets less related debt (i.e., the book value of the capital assets less related debt) reports an amount of about \$24.8 million. The City depreciates their capital assets in this fund equally over the life of the assets. However, in the amortization schedule developed when the City issued the related debt, the majority of the principal is being retired over the last ten years of the 20-year bonds. Therefore, the debt principal is being retired at a rate less than the annual depreciation, resulting in a relatively low investment in capital assets. This trend will reverse as the debt principal is retired.

The current ratio for this fund is 12.4 to 1 which provides this fund with adequate resources to cover cash flow requirements. This fund reports over \$63 million in unrestricted net assets.

The solid waste fund reported operating income of \$14.4 million with a total increase in net assets of approximately \$8.3 million after transfers out to other funds. These amounts show a positive variance related amounts of \$11.4 million and \$3.5 million in 2003.

### **Budgetary Highlights**

**The General Fund** – The General Fund's original revenue budget was comparable to the 2003 actual results. The original expenditure budget was \$6.5 million more than the 2003 actual results. The City Council amended both the revenue and expenditure budgets during 2004, the amendments resulted in less than a 1% change between the original and final budgets for revenues, and a 2% change between the original and final budgets for expenditures. In total, actual revenues were lower than the final budget by \$1.5 million or about a 1% difference. The total actual expenditures were approximately \$2.4 million less than budgeted or 2.5% below budget.

On the revenue side of the budget, the all of the categories experienced a negative variance, with the exception of the charges for services category, where there was an increase of \$463,656 over the budgeted amount.

On the expenditure side of the budget, the largest variance between the final budget and the actual amounts was the under-expenditure of the security of persons and property and the economic environment functions of over \$800,000 each.

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. The continuing budgetary stress of the General Fund has been recognized as a critical financial issue. In 2004, City management implemented a new budgeting tool called "Priorities of Government" to better direct the limited resources to the service priorities of the citizens, and are also utilizing longer term budgetary projections to address the structural imbalance between the revenues and expenditures of the General Fund.

### **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, 2004, was \$189 million and \$414 million respectively. The total increase in this net investment was 12% for governmental and a 5% increase for business-type activities. The overall increase was 7.1% for the City as a whole. See Note 5 for additional information about changes in capital assets during the

fiscal year and outstanding at the end of the year. The following table provides a summary of capital asset activity.

**Capital Assets**  
(Amounts Presented in \$1,000's)

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Non-depreciable assets:								
Land	\$ 9,109	\$ 8,728	\$ 21,150	\$ 14,041	\$ 30,259	\$ 22,769	3%	3%
Construction in progress	26,843	14,798	18,024	32,511	44,867	47,309	5%	5%
Total non-depreciable	<u>35,952</u>	<u>23,526</u>	<u>39,174</u>	<u>46,552</u>	<u>75,126</u>	<u>70,078</u>	<u>8%</u>	<u>8%</u>
Depreciable assets:								
Buildings	65,032	64,343	218,544	207,827	283,576	272,170	31%	31%
Other improvements	16,019	15,202	31,376	18,969	47,395	34,171	5%	4%
Machinery and equipment	67,763	64,185	87,495	84,126	155,258	148,311	17%	17%
Infrastructure	85,080	75,609	278,390	266,117	363,470	341,726	39%	39%
Total depreciable assets	<u>233,894</u>	<u>219,339</u>	<u>615,805</u>	<u>577,039</u>	<u>849,699</u>	<u>796,378</u>	<u>92%</u>	<u>92%</u>
Total cost of capital assets	269,846	242,865	654,979	623,591	924,825	866,456	<u>100%</u>	<u>100%</u>
Accumulated depreciation	<u>81,148</u>	<u>73,654</u>	<u>240,486</u>	<u>228,807</u>	<u>321,634</u>	<u>302,461</u>		
Book value – capital assets	\$ <u>188,698</u>	\$ <u>169,211</u>	\$ <u>414,493</u>	\$ <u>394,784</u>	\$ <u>603,191</u>	\$ <u>563,995</u>		
Percentage depreciated	<u>30%</u>	<u>30%</u>	<u>37%</u>	<u>37%</u>	<u>35%</u>	<u>35%</u>		

At December 31, 2004, the depreciable capital assets for governmental activities were 30% depreciated. This is equal to the December 31, 2003 percentage.

With the City's business type activities, 37% of the asset values were depreciated at December 31, 2004 and December 31, 2003. These percentages provide an indicator 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	34%
Sewer System	35%
Solid Waste	44%
Golf	34%

### **Long-term debt**

At the end of the fiscal year, the City had long-term debt outstanding of over \$288 million. Of this amount, \$94 million or 33% 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 \$99.8 million supported by pledged revenues generated primarily by the business-type activities of the City (revenue bonds).

During the year, the City retired \$25.9 million or 10% of the beginning outstanding borrowed debt balance.

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

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2004	2003	2004	2003	2004	2003	
General obligation bonds	\$ 93,515	\$ 76,228	\$ 606	\$ 652	\$ 94,121	\$ 76,880	22.43%
Special assessment debt	5,518	5,955	-	-	5,518	5,955	-7.34%
Revenue bonds	-	-	99,817	111,756	99,817	111,756	-10.68%
Capital leases	153	237	-	-	153	237	-35.44%
Bank and other loans	53,424	24,438	12,135	12,856	65,559	37,294	75.79%
Total	\$ <u>152,610</u>	\$ <u>106,858</u>	\$ <u>112,558</u>	\$ <u>125,264</u>	\$ <u>265,168</u>	\$ <u>232,122</u>	14.24%

During the year, the City issued \$24,151,000 in general obligation bonds, \$1,028,000 in special assessment debt and \$33,197,000 of bank and other loans. The debt per capita for the citizens of the City of Spokane was approximately \$586.

See Note 9 for additional information about the City's long-term debt.

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

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Since sales taxes are considered an "elastic" revenue stream, tax collections are higher in a flourishing economy and are lower in a depressed economy. The City of Spokane is continuing to enjoy a reasonably strong economy, and does not anticipate any negative trends in sales tax revenue.

### **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.

## Government-Wide Financial Statements

**CITY OF SPOKANE  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 38,241,072	\$ 4,438,421	\$ 42,679,493
Investments	80,435,465	118,321,339	198,756,804
Receivables (net)	27,383,737	21,798,597	49,182,334
Internal balances	904,440	(904,440)	-
Inventories	2,015,378	1,511,773	3,527,151
Prepaid Items	109,163	-	109,163
<b>Restricted assets:</b>			
Cash and cash equivalents	-	211,934	211,934
Investments	-	11,797,072	11,797,072
Interest Receivable	-	44,534	44,534
<b>Noncurrent Assets:</b>			
<b>Restricted assets:</b>			
Investments	-	17,549,364	17,549,364
<b>Deferred charges and other assets:</b>			
Deferred charges	-	7,605,029	7,605,029
Noncurrent receivables	21,350,000	5,969,346	27,319,346
Other assets	-	12,082,639	12,082,639
<b>Capital Assets (net of accumulated depreciation):</b>			
Land	9,109,080	21,149,875	30,258,955
Property, plant and equipment	83,491,094	195,984,482	279,475,576
Infrastructure	69,255,420	179,334,460	248,589,880
Construction in progress	26,843,169	18,023,970	44,867,139
<b>Total assets</b>	<b>359,138,018</b>	<b>614,918,395</b>	<b>974,056,413</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	15,345,070	8,324,024	23,669,094
Unearned revenue	233,749	2,146,258	2,380,007
Other current liabilities	1,236,947	1,077,985	2,314,932
<b>Noncurrent liabilities:</b>			
Due within one year	52,624,190	13,727,108	66,351,298
Due in more than one year	120,756,805	101,771,615	222,528,420
<b>Total liabilities</b>	<b>190,196,761</b>	<b>127,046,990</b>	<b>317,243,751</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	111,774,835	316,315,230	428,090,065
<b>Restricted for:</b>			
Debt service	-	11,421,516	11,421,516
Capital projects	19,851,012	-	19,851,012
Other purposes	-	3,761,063	3,761,063
Unrestricted	37,315,410	156,373,596	193,689,006
<b>Total net assets</b>	<b>\$ 168,941,257</b>	<b>\$ 487,871,405</b>	<b>\$ 656,812,662</b>

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

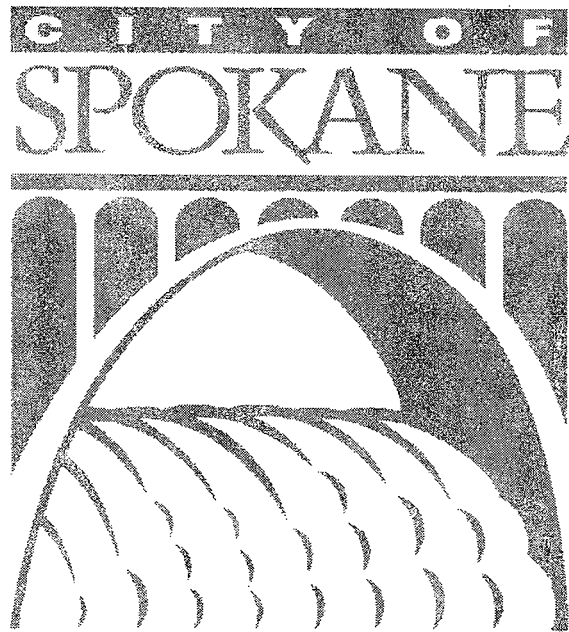
**CITY OF SPOKANE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	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
<b>FUNCTIONS/PROGRAMS</b>						
Governmental activities:						
General government	\$ 10,336,418	\$ 9,357,622	\$ 3,550	\$ 1,619,525	\$ 644,279	\$ 644,279
Judicial	5,636,339	3,616,578	-	-	(2,019,761)	(2,019,761)
Public safety	84,419,088	3,111,204	362,728	1,075,891	(79,869,235)	(79,869,235)
Physical environment	1,652,843	124,985	-	-	(1,527,858)	(1,527,858)
Transportation	17,624,697	2,280,258	-	12,352,399	(2,992,040)	(2,992,040)
Health and human services	72,311	89,685	71,032	-	88,406	88,406
Economic environment	44,985,529	616,678	7,545,187	-	(36,823,664)	(36,823,664)
Culture and recreation	21,478,257	4,157,096	36,509	456,049	(16,828,603)	(16,828,603)
Interest on long-term debt	6,094,736	-	-	-	(6,094,736)	-
Total governmental activities	192,300,188	23,354,106	8,019,006	15,503,864	(145,423,212)	(145,423,212)
Business-type activities:						
Water	23,796,518	26,004,791	-	872,209	-	3,080,482
Sewer	30,487,177	37,825,886	111,261	7,574,735	-	15,024,705
Solid Waste	59,372,575	65,894,896	702,306	-	-	7,224,627
Other business-type activities	6,573,215	6,413,505	-	-	-	(153,710)
Total business-type activities	120,229,485	136,145,078	813,567	8,446,944	25,176,104	25,176,104
Total government	\$ 312,529,673	\$ 159,499,184	\$ 8,832,573	\$ 23,950,808	(145,423,212)	(120,247,108)
<b>GENERAL REVENUES:</b>						
Property taxes					39,431,373	39,431,373
Sales taxes					30,231,864	30,231,864
B & O taxes					34,635,656	34,635,656
Other taxes					14,036,105	14,036,105
Investment earnings					2,250,270	2,250,270
Loss on disposition of capital assets					(422,139)	(422,139)
<b>TRANSFERS</b>					(118,148)	-
Total general revenues and transfers					120,027,200	122,396,618
Change in net assets					(25,396,012)	2,148,510
Prior period adjustments					19,788	703,364
Net assets - beginning					194,317,481	653,960,798
Net assets - ending					\$ 168,941,257	\$ 656,812,662

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



THIS PAGE INTENTIONALLY LEFT BLANK



## Fund Financial Statements

**CITY OF SPOKANE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	GENERAL 0100	PARKING FACILITIES 1470	HUD SECTION 108 LOAN GUARANTY 2400	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,677,553	\$ 60,570	\$ -	\$ 22,632,762	\$ 26,370,885
Deposits with fiscal agents/trustees	-	-	-	3,348,400	3,348,400
Investments	2,325,208	247,052	198	64,644,407	67,216,865
Receivables:					
Taxes receivable	6,551,289	-	-	2,820,381	9,371,670
Accounts receivable	331,632	-	-	2,129,355	2,460,987
Special assessments receivable	-	-	-	5,160,062	5,160,062
Interest receivable	653,511	836	-	174,726	829,073
Due from other funds	2,490,249	-	-	2,324,904	4,815,153
Due from other governments	145,103	-	-	8,823,573	8,968,676
Prepayments	-	-	-	30,718	30,718
Inventories	-	-	-	971,950	971,950
Interfund loan receivable	-	-	-	80,000	80,000
Notes/contracts receivable	-	-	21,350,000	243,337	21,593,337
<b>Total assets</b>	<b>\$ 16,174,545</b>	<b>\$ 308,458</b>	<b>\$ 21,350,198</b>	<b>\$ 113,384,575</b>	<b>\$ 151,217,776</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Warrants payable	\$ -	\$ -	\$ -	\$ 604,129	\$ 604,129
Accounts / vouchers payable	838,561	-	-	2,400,300	3,238,861
Matured long-term obligations	-	-	-	7,000	7,000
Matured interest payable	-	-	-	3,397	3,397
Due to other funds	908,355	-	-	3,403,172	4,311,527
Due to other governments	984	-	-	9,857	10,841
Other accrued liabilities	5,266,674	-	-	1,683,086	6,949,760
Other current liabilities	834,595	-	-	391,469	1,226,064
Interfund loan payable	-	-	-	80,000	80,000
Deferred revenue	6,656,260	-	21,350,000	14,440,458	42,446,718
<b>Total liabilities</b>	<b>14,505,429</b>	<b>-</b>	<b>21,350,000</b>	<b>23,022,868</b>	<b>58,878,297</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Inventories	-	-	-	971,950	971,950
Noncurrent receivables	-	-	-	80,000	80,000
Capital replacement	-	-	-	441,401	441,401
Debt Service	-	-	198	8,679,213	8,679,411
<b>Unreserved:</b>					
Undesignated	1,669,116	308,458	-	-	1,977,574
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	27,962,238	27,962,238
Capital projects funds	-	-	-	52,226,905	52,226,905
<b>Total fund balances</b>	<b>1,669,116</b>	<b>308,458</b>	<b>198</b>	<b>90,361,707</b>	<b>92,339,479</b>
<b>Total liabilities and fund balances</b>	<b>\$ 16,174,545</b>	<b>\$ 308,458</b>	<b>\$ 21,350,198</b>	<b>\$ 113,384,575</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.	173,627,570
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	42,212,969
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.	25,756,297
Some liabilities, including bonds payable, are not due and payable in the current reporting period and therefore are not reported in the funds.	(164,995,058)
<b>Net assets of governmental activities</b>	<b>\$ 168,941,257</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, 2004**

	GENERAL 0100	PARKING FACILITIES 1470	HUD SECTION 108 LOAN GUARANTY 2400	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Taxes	\$ 89,139,464	\$ -	\$ -	\$ 21,922,992	\$ 111,062,456
Licenses and permits	5,419,605	-	-	252,681	5,672,286
Intergovernmental	2,965,181	-	-	25,639,422	28,604,603
Charges for services	9,385,647	-	-	6,542,839	15,928,486
Fines and forfeitures	3,220,937	-	-	513,179	3,734,116
Miscellaneous	1,274,277	2,963,769	548,592	7,781,481	12,568,119
Total revenues	111,405,111	2,963,769	548,592	62,652,594	177,570,066
<b>EXPENDITURES</b>					
Current:					
General government	17,555,199	-	-	1,523,231	19,078,430
Security of persons and property	66,891,763	-	-	15,312,376	82,204,139
Physical environment	5,426,774	-	-	-	5,426,774
Transportation	-	-	-	13,974,113	13,974,113
Economic environment	4,184,039	33,013,569	-	7,713,061	44,910,669
Mental and physical health	85,867	-	-	-	85,867
Culture and recreation	1,230,745	-	-	18,365,748	19,596,493
Capital outlay	72,136	-	-	26,766,013	26,838,149
Debt service:					
Principal	-	3,011,340	930,000	8,599,266	12,540,606
Interest	13,689	89,923	1,490,680	4,309,125	5,903,417
Total expenditures	95,460,212	36,114,832	2,420,680	96,562,933	230,558,657
Excess (deficiency) of revenues over (under) expenditures	15,944,899	(33,151,063)	(1,872,088)	(33,910,339)	(52,988,591)
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term debt issued	-	32,697,000	-	26,860,140	59,557,140
Sale of capital assets	108,768	-	-	278,005	386,773
Transfers in	4,692,917	-	1,529,319	35,455,381	41,677,617
Transfers out	(28,921,506)	-	-	(11,377,858)	(40,299,364)
Total other financing sources (uses)	(24,119,821)	32,697,000	1,529,319	51,215,668	61,322,166
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(8,174,922)	(454,063)	(342,769)	17,305,329	8,333,575
Other changes in fund balances:					
Prior period adjustment	-	-	-	-	-
Fund balances - beginning	9,844,038	762,521	342,967	73,056,380	84,005,906
Fund balances - ending	\$ 1,669,116	\$ 308,458	\$ 198	\$ 90,361,709	\$ 92,339,481

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, 2004**

Net change in fund balances - total governmental funds	\$ 8,333,575
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 (\$26,344,009) exceeded depreciation (\$7,918,863) in the current period.	18,425,146
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.	(343,715)
Some revenues in the governmental funds that were not available until the current year were reported in prior years in the statement of activities.	(1,951,037)
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.	(47,016,534)
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.	(466,306)
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 loss of internal service funds is reported with governmental activities.	<u>(2,377,141)</u>
Change in net assets of governmental activities	<u>\$ (25,396,012)</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, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 89,997,129	\$ 89,997,129	\$ 89,139,464	\$ (857,665)
Licenses and permits	5,616,016	5,629,016	5,419,605	(209,411)
Intergovernmental	2,920,408	3,354,110	2,965,181	(388,929)
Charges for services	8,681,963	8,921,991	9,385,647	463,656
Fines and forfeitures	3,577,200	3,577,200	3,220,937	(356,263)
Miscellaneous	1,486,542	1,501,542	1,274,277	(227,265)
<b>Total revenues</b>	<b>112,279,258</b>	<b>112,980,988</b>	<b>111,405,111</b>	<b>(1,575,877)</b>
<b>EXPENDITURES</b>				
Current:				
General government	18,114,712	18,077,902	17,555,199	522,703
Security of persons and property	65,700,216	67,720,997	66,891,763	829,234
Physical environment	5,314,407	5,536,749	5,426,774	109,975
Economic environment	5,016,332	5,040,440	4,184,039	856,401
Mental and physical health	87,080	87,080	85,867	1,213
Culture and recreation	1,362,298	1,303,556	1,230,745	72,811
Capital outlay	40,310	91,883	72,136	19,747
Debt service:				
Interest	5,000	5,000	13,689	(8,689)
<b>Total expenditures</b>	<b>95,640,355</b>	<b>97,863,607</b>	<b>95,460,212</b>	<b>2,403,395</b>
<b>Excess revenues over expenditures</b>	<b>16,638,903</b>	<b>15,117,381</b>	<b>15,944,899</b>	<b>827,518</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	30,000	30,000	108,768	78,768
Transfers in	1,931,231	5,731,231	4,692,917	(1,038,314)
Transfers out	(27,838,304)	(27,145,280)	(28,921,506)	(1,776,226)
<b>Total other financing sources (uses)</b>	<b>(25,877,073)</b>	<b>(21,384,049)</b>	<b>(24,119,821)</b>	<b>(2,735,772)</b>
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	<b>(9,238,170)</b>	<b>(6,266,668)</b>	<b>(8,174,922)</b>	<b>(1,908,254)</b>
<b>Fund balances - beginning</b>	<b>9,844,038</b>	<b>9,844,038</b>	<b>9,844,038</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 605,868</b>	<b>\$ 3,577,370</b>	<b>\$ 1,669,116</b>	<b>\$ (1,908,254)</b>

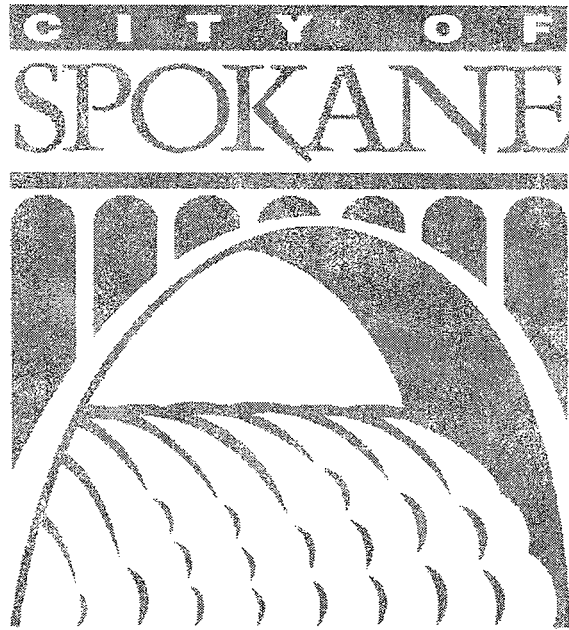
The notes to the financial statements are an integral part of this statement.

**CITY OF SPOKANE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**PARKING FACILITIES SPECIAL REVENUE FUND (1470)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental revenues	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Miscellaneous revenues	10,000	2,966,676	2,963,769	(2,907)
<b>Total revenues</b>	<u>10,000</u>	<u>2,966,676</u>	<u>2,963,769</u>	<u>(2,907)</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Security of persons and property	-	-	-	-
Transportation	-	-	-	-
Economic environment	36,400	32,678,736	33,013,569	(334,833)
Culture and recreation	-	-	-	-
Capital Outlay	-	-	-	-
Debt service:				
Principal	-	3,011,340	3,011,340	-
Interest	-	-	89,923	(89,923)
<b>Total expenditures</b>	<u>36,400</u>	<u>35,690,076</u>	<u>36,114,832</u>	<u>(424,756)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,400)</u>	<u>(32,723,400)</u>	<u>(33,151,063)</u>	<u>(427,663)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Proceeds of LT-Debt-Gov't Funds	-	32,697,000	32,697,000	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>32,697,000</u>	<u>32,697,000</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(26,400)</u>	<u>(26,400)</u>	<u>(454,063)</u>	<u>(427,663)</u>
Other changes in unreserved fund balance:				
Prior period adjustment	-	-	-	-
<b>Fund balance - beginning</b>	<u>762,521</u>	<u>762,521</u>	<u>762,521</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 736,121</u>	<u>\$ 736,121</u>	<u>\$ 308,458</u>	<u>\$ (427,663)</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK





**CITY OF SPOKANE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2004**

	<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	\$ 483,283	\$ 1,209,776	\$ 1,755,683	\$ 989,679	\$ 4,438,421	\$ 7,975,953
Deposits with fiscal agents / trustees	-	-	-	-	-	545,834
Investments	33,094,404	43,317,654	40,387,216	1,522,065	118,321,339	13,218,600
Receivables:						
Accounts receivable	2,445,397	7,915,314	8,990,961	30,466	19,382,138	195,993
Interest receivable	288,177	380,415	82,115	-	750,707	153,939
Due from other funds	272,856	14,025	100	413,224	700,205	1,855,974
Due from other governmental units	-	1,274,340	391,412	-	1,665,752	-
Inventories	1,408,383	76,992	-	26,398	1,511,773	1,043,428
Prepayments	-	-	-	-	-	78,445
Total current assets	<u>37,992,500</u>	<u>54,188,516</u>	<u>51,607,487</u>	<u>2,981,832</u>	<u>146,770,335</u>	<u>25,068,166</u>
Restricted assets:						
Revenue bond reserves:						
Cash and equivalents	-	-	211,934	-	211,934	-
Investments	-	-	23,960,871	621,771	24,582,642	-
Interest receivable	-	-	41,497	3,037	44,534	-
Other restricted assets:						
Investments	-	-	3,909,848	-	3,909,848	-
Customer deposits - investments	853,946	-	-	-	853,946	-
Total restricted assets	<u>853,946</u>	<u>-</u>	<u>28,124,150</u>	<u>624,808</u>	<u>29,602,904</u>	<u>-</u>
Capital assets:						
Land	1,575,549	7,870,519	5,183,381	6,520,426	21,149,875	-
Property, plant and equipment	26,658,928	111,613,817	185,137,560	14,004,977	337,415,282	41,098,552
Infrastructure	119,084,389	159,305,645	-	-	278,390,034	-
Construction in progress	6,541,769	11,482,201	-	-	18,023,970	-
Less accumulated depreciation	(51,867,930)	(100,165,336)	(82,803,794)	(5,649,314)	(240,486,374)	(26,027,359)
Total capital assets	<u>101,992,705</u>	<u>190,106,846</u>	<u>107,517,147</u>	<u>14,876,089</u>	<u>414,492,787</u>	<u>15,071,193</u>
Other noncurrent assets:						
Contracts receivable	-	-	-	-	-	-
Other noncurrent assets	93,794	5,969,346	11,988,845	-	18,051,985	-
Total noncurrent assets	<u>93,794</u>	<u>5,969,346</u>	<u>11,988,845</u>	<u>-</u>	<u>18,051,985</u>	<u>-</u>
Deferred charges:						
Deferred landfill closure charges	-	-	2,614,429	-	2,614,429	-
Other deferred charges	61,434	104,500	4,824,666	-	4,990,600	-
Total deferred charges	<u>61,434</u>	<u>104,500</u>	<u>7,439,095</u>	<u>-</u>	<u>7,605,029</u>	<u>-</u>
Total assets	<u>\$ 140,994,379</u>	<u>\$ 250,369,208</u>	<u>\$ 206,676,724</u>	<u>\$ 18,482,729</u>	<u>\$ 616,523,040</u>	<u>\$ 40,139,359</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, 2004  
(CONTINUED)**

	<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>LIABILITIES</b>						
Current liabilities:						
Accounts/vouchers payable	\$ 449,140	\$ 1,929,954	\$ 2,343,404	\$ 44,295	\$ 4,766,793	\$ 1,961,637
Claims and judgements payable	-	-	-	-	-	9,458,976
Compensated absences	31,167	47,812	23,964	20,951	123,894	47,261
Due to other funds	438,985	770,099	1,117,341	86,840	2,413,265	646,543
Due to other governmental units	682,206	305,218	228,718	-	1,216,142	-
Accrued interest payable	75,035	-	-	-	75,035	-
Other accrued liabilities	379,550	414,558	434,419	162,155	1,390,682	556,208
Other current liabilities	-	-	-	40,757	40,757	10,883
Notes and leases payable	8,503	2,431	-	-	10,934	46,930
<b>Total current liabilities</b>	<b>2,064,586</b>	<b>3,470,072</b>	<b>4,147,846</b>	<b>354,998</b>	<b>10,037,502</b>	<b>12,728,438</b>
Current liabilities payable from restricted assets:						
Revenue bonds payable	-	-	12,335,000	221,478	12,556,478	-
General obligation bonds payable	-	-	-	48,378	48,378	-
Accrued interest payable	-	-	1,690,345	172,451	1,862,796	-
Deposits and other payables	853,946	19,026	164,256	-	1,037,228	-
<b>Total current liabilities payable from restricted assets</b>	<b>853,946</b>	<b>19,026</b>	<b>14,189,601</b>	<b>442,307</b>	<b>15,504,880</b>	<b>-</b>
Noncurrent liabilities:						
Revenue bonds payable	-	-	83,184,105	3,113,760	86,297,865	-
General obligation bonds payable	-	-	-	557,723	557,723	-
Accrued interest payable	-	-	-	123,907	123,907	-
Due to other governmental units	6,805,906	4,218,851	-	-	11,024,757	-
Unearned revenue	-	2,146,258	-	-	2,146,258	-
Compensated absences	696,200	559,153	439,976	246,317	1,941,646	740,195
Accrued landfill liability	-	-	1,714,125	-	1,714,125	-
Other noncurrent liabilities	86,778	24,814	-	-	111,592	105,812
<b>Total noncurrent liabilities</b>	<b>7,588,884</b>	<b>6,949,076</b>	<b>85,338,206</b>	<b>4,041,707</b>	<b>103,917,873</b>	<b>846,007</b>
<b>Total liabilities</b>	<b>10,507,416</b>	<b>10,438,174</b>	<b>103,675,653</b>	<b>4,839,012</b>	<b>129,460,255</b>	<b>13,574,445</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	94,409,313	185,555,532	24,854,542	11,495,844	316,315,231	14,918,451
Restricted for debt service	-	-	11,357,803	63,715	11,421,518	-
Restricted for solid waste closure	-	-	3,761,063	-	3,761,063	-
Unrestricted	36,077,650	54,375,502	63,027,663	2,084,160	155,564,975	11,646,463
<b>Total net assets</b>	<b>\$ 130,486,963</b>	<b>\$ 239,931,034</b>	<b>\$ 103,001,071</b>	<b>\$ 13,643,719</b>	<b>487,062,787</b>	<b>\$ 26,564,914</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					808,618	
Net assets of business-type activities					<b>\$ 487,871,405</b>	

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, 2004**

	<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>OPERATING REVENUES</b>						
Charges for goods and services	\$ 24,486,884	\$ 38,580,245	\$ 53,617,711	\$ 6,470,864	\$ 123,155,704	\$ 24,011,456
Miscellaneous revenues	-	-	-	41,244	41,244	21,239,263
Other operating revenues	827,642	106,936	12,967,618	-	13,902,196	19,427
<b>Total operating revenues</b>	<b>25,314,526</b>	<b>38,687,181</b>	<b>66,585,329</b>	<b>6,512,108</b>	<b>137,099,144</b>	<b>45,270,146</b>
<b>OPERATING EXPENSES</b>						
Operations	9,827,459	10,354,457	31,791,964	4,394,820	56,368,700	12,233,421
Maintenance	5,177,635	5,456,502	2,561,160	1,122,534	14,317,831	-
General and administration	-	1,402,303	3,239,936	317,922	4,960,161	9,234,637
Taxes	5,689,235	6,742,201	5,692,722	18,936	18,143,094	-
Risk transfer payments	-	-	-	-	-	1,370,183
Claims processing	-	-	-	-	-	319,446
Payments to claimants and beneficiaries	-	-	-	-	-	19,440,403
Depreciation	2,776,907	6,288,834	7,958,034	372,290	17,396,065	3,194,525
Amortization of landfill closure costs	-	-	871,474	-	871,474	-
<b>Total operating expenses</b>	<b>23,471,236</b>	<b>30,244,297</b>	<b>52,115,290</b>	<b>6,226,502</b>	<b>112,057,325</b>	<b>45,792,615</b>
<b>Operating income (loss)</b>	<b>1,843,290</b>	<b>8,442,884</b>	<b>14,470,039</b>	<b>285,606</b>	<b>25,041,819</b>	<b>(522,469)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	545,263	775,915	897,087	32,012	2,250,277	269,641
LID losses and engineering expenses	-	(1,117,201)	-	-	(1,117,201)	-
Revenues from jobbing and contract work	1,580,286	28,266	-	-	1,608,552	-
Expenses from jobbing and contract work	(1,524,875)	-	-	-	(1,524,875)	-
Gain (loss) on disposition of fixed assets	256,333	76,841	(328,055)	(19,923)	(14,804)	(465,197)
Depreciation - non-plant property	-	-	-	(169,245)	(169,245)	-
Interest expense	(159,212)	(50,845)	(4,827,465)	(310,670)	(5,348,192)	(11,661)
Rent and lease income	378,521	-	121,041	-	499,562	-
Amortization - other long term assets	-	-	(2,186,898)	-	(2,186,898)	-
Other nonoperating revenue	-	274,490	1,249,775	-	1,524,265	61,876
Other nonoperating expense	-	(12,430)	(1,030,888)	96,565	(946,753)	-
<b>Total nonoperating revenues (expenses)</b>	<b>1,076,316</b>	<b>(24,964)</b>	<b>(6,105,403)</b>	<b>(371,261)</b>	<b>(5,425,312)</b>	<b>(145,341)</b>
<b>Income before contributions and transfers</b>	<b>2,919,606</b>	<b>8,417,920</b>	<b>8,364,636</b>	<b>(85,655)</b>	<b>19,616,507</b>	<b>(667,810)</b>
Capital contributions	872,209	7,574,735	-	-	8,446,944	-
Transfers in (out)	(30,694)	(140,007)	(781,909)	1,070,756	118,146	(1,496,401)
Special Item	-	-	-	-	-	(850,000)
Change in net assets	3,761,121	15,852,648	7,582,727	985,101	28,181,597	(3,014,211)
Prior period adjustment	(132,584)	-	816,150	-	683,566	(26,162)
<b>Total net assets - beginning</b>	<b>126,858,426</b>	<b>224,078,386</b>	<b>94,602,194</b>	<b>12,658,617</b>		<b>29,605,290</b>
<b>Total net assets - ending</b>	<b>\$ 130,486,963</b>	<b>\$ 239,931,034</b>	<b>\$ 103,001,071</b>	<b>\$ 13,643,718</b>		<b>\$ 26,564,917</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(637,075)	
Change in net assets of business-type activities after adjustment for prior period items					\$ 28,228,088	

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, 2004**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	WATER	SEWER	SOLID WASTE	OTHER ENTERPRISE FUNDS	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers and users	\$ 25,373,366	\$ 40,097,514	\$ 65,691,178	\$ 6,504,328	\$ 137,666,386	\$ 613,004
Receipts from interfund services provided	-	142,102	-	-	142,102	44,471,856
Payments to suppliers and for services	(2,150,518)	(4,472,779)	(22,158,032)	(879,839)	(29,661,168)	(26,047,596)
Payments to employees	(7,774,265)	(8,179,303)	(9,658,144)	(3,772,685)	(29,384,397)	(9,825,907)
Payments for taxes - city and state	(5,548,028)	(6,742,201)	(5,742,175)	(19,236)	(18,051,640)	-
Payments for interfund services used	(4,622,966)	(5,863,622)	(6,872,292)	(1,074,471)	(18,433,351)	(2,979,495)
Other receipts	-	282,951	-	117,077	400,028	-
Net cash provided (used) by operating activities	5,277,589	15,264,662	21,260,535	875,174	42,677,960	6,231,862
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating grants received	-	-	613,512	-	613,512	-
State tax refund	-	-	-	-	-	-
Transfers in (out)	-	-	(781,909)	1,003,247	221,338	(3,218,296)
Net cash provided (used) by noncapital and related financing activities	-	-	(168,397)	1,003,247	834,850	(3,218,296)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from disposal of capital assets	313,937	76,841	369,736	-	760,514	82,257
Proceeds from loans, notes, and lease purchase payable	-	278,922	-	167,826	446,748	-
Proceeds from rent and lease income	378,521	-	-	-	378,521	-
Capital grants received	-	5,202,039	-	-	5,202,039	-
Contributions (to) from the LID fund	(1,680)	-	-	(11,152)	(12,832)	-
Acquisition and construction of capital assets	(3,637,764)	(26,660,814)	(5,579,790)	(150,475)	(36,028,843)	(3,419,212)
Principal paid on revenue bonds	-	-	(11,665,000)	(195,058)	(11,860,058)	-
Principal paid on general obligation bonds	-	-	-	(45,798)	(45,798)	-
Principal paid on intergovernmental loans and lease-purchase agreements	(684,742)	(305,218)	-	-	(989,960)	(84,077)
Principal paid on notes and capital leases payable	(8,067)	-	-	(150,000)	(158,067)	-
Interest paid on revenue bonds	-	-	(5,735,938)	(336,230)	(6,072,168)	-
Interest paid on general obligation bonds	-	-	-	(33,059)	(33,059)	-
Interest paid on intergovernmental loans	(160,416)	(50,845)	-	(195)	(211,456)	-
Interest paid on notes and capital leases payable	(5,581)	-	-	-	(5,581)	(11,661)
Cash contributions in aid of construction	428,072	-	-	-	428,072	-
County landfill closure costs paid	-	-	(236,085)	-	(236,085)	-
Transfers in (out)	(30,694)	(140,007)	-	-	(170,701)	-
Net cash provided (used) by capital and related financing activities	(3,408,414)	(21,599,082)	(22,847,077)	(754,141)	(48,608,714)	(3,432,693)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	(23,938,258)	(59,070,040)	(55,752,294)	(1,692,225)	(140,452,817)	(13,158,192)
Proceeds from sales and maturities of investments	21,300,000	63,300,000	54,589,539	1,180,101	140,369,640	14,708,325
Interest received	494,110	827,192	858,713	28,866	2,208,881	293,625
Net cash provided (used) by investing activities	(2,144,148)	5,057,152	(304,042)	(483,258)	2,125,704	1,843,758
Net increase (decrease) in cash and cash equivalents	(274,973)	(1,277,268)	(2,058,981)	641,022	(2,970,200)	1,424,631
Cash and cash equivalents, January 1	758,256	2,487,044	4,026,598	348,657	7,620,555	6,551,323
Cash and cash equivalents, December 31	\$ 483,283	\$ 1,209,776	\$ 1,967,617	\$ 989,679	\$ 4,650,355	\$ 7,975,954

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, 2004  
(CONTINUED)**

	<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>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 1,843,290	\$ 8,442,884	\$ 14,470,039	\$ 285,606	\$ 25,041,819	\$ (522,489)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	2,776,906	6,288,835	7,958,034	372,291	17,396,066	3,194,525
Amortization of landfill closure costs	-	-	871,474	-	871,474	-
Other revenues	1,580,286	302,756	668,510	96,565	2,648,117	75,222
Other expenses	(1,524,875)	(1,129,632)	(170,143)	(1,788)	(2,826,438)	-
Special Item	-	-	-	-	-	(850,000)
(Increase) decrease in deposits with fiscal agents	-	-	-	-	-	849,345
(Increase) decrease in accounts receivable	(230,288)	2,802,518	-	(4,800)	2,567,430	13,790
(Increase) decrease in due from other funds	(18,246)	(83)	(2,538,274)	-	(2,554,603)	(273,638)
(Increase) decrease in due from other governments	115,000	(1,862,571)	750,619	-	(996,952)	-
(Increase) decrease in inventories	93,879	4,037	133	867	98,916	(1,286)
(Increase) decrease in prepayments	-	-	-	-	-	250,649
(Increase) decrease in other long-term assets	(91,519)	-	(47,481)	-	(139,000)	-
Increase (decrease) in accounts/vouchers payable	249,818	386,229	(280,119)	23,416	379,344	218,724
Increase (decrease) in due to other funds	50,316	82,515	(547,204)	9,974	(404,399)	(180,974)
Increase (decrease) in claims and judgments payable	-	-	-	-	-	3,241,966
Increase (decrease) in due to other governmental units	16,079	-	-	-	16,079	-
Increase (decrease) in other accrued liabilities	94,022	178,165	104,383	51,439	426,009	215,561
Increase (decrease) in other current liabilities	8,677	(228,064)	-	17,532	(201,855)	14,495
Increase (decrease) in deposits payable	289,331	(1,400)	14,402	-	302,333	-
Increase (decrease) in employee leave benefits payable	41,427	2,904	4,162	24,072	72,565	(12,047)
Increase (decrease) in other long-term liabilities	(16,515)	(2,431)	-	-	(18,946)	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ 5,277,588</b>	<b>\$ 15,264,662</b>	<b>\$ 21,260,535</b>	<b>\$ 875,174</b>	<b>\$ 42,677,959</b>	<b>\$ 6,231,863</b>
<b>Noncash investing, capital and financing activities:</b>						
Assets contributed from developers and customers	\$ 455,817	\$ 1,287,822	\$ -	\$ -	\$ 1,743,639	\$ -
Assets contributed from other funds	-	-	-	-	-	1,721,893
Accumulated depreciation on assets held for lease	-	-	-	169,245	169,245	-
<b>Total of noncash activities</b>	<b>\$ 455,817</b>	<b>\$ 1,287,822</b>	<b>\$ -</b>	<b>\$ 169,245</b>	<b>\$ 1,912,884</b>	<b>\$ 1,721,893</b>

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, 2004**

	PENSION TRUST FUNDS	FINCH MEMORIAL ARBORETUM PRIVATE-PURPOSE TRUST FUND	AGENCY FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,891,036	\$ 2,046	\$ 6,048,319
Deposits with fiscal agents/trustees	320,000	-	-
Receivables:			
Interest and dividends	1,060,281	-	1,527
Taxes	1,072,234	-	-
Other receivables	667	-	25,160,612
Total receivables	<u>2,133,182</u>	<u>-</u>	<u>25,162,139</u>
Investments, at fair value:			
U.S. fixed income	90,342,219	-	-
U.S. common stock	102,046,425	-	-
International stock	18,060,665	-	-
International bonds	2,217,107	-	-
Venture capital	101,530	-	2,091,765
Total investments	<u>212,767,946</u>	<u>-</u>	<u>2,091,765</u>
Prepayments	<u>-</u>	<u>-</u>	<u>186,825</u>
Total assets	<u>\$ 226,112,164</u>	<u>\$ 2,046</u>	<u>\$ 33,489,048</u>
<b>LIABILITIES</b>			
Warrants payable	\$ -	\$ -	\$ 4,561,527
Accounts payable	565,234	-	156,800
Matured long-term obligations	-	-	265,000
Due to other governmental units	-	-	2,605,053
Other accrued liabilities	11,773	-	31,538
Other current liabilities	27,078	-	640,307
Deferred revenue	-	-	25,228,823
Employee leave benefits	<u>43,362</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>647,447</u>	<u>-</u>	<u>\$ 33,489,048</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes	<u>\$ 225,464,717</u>	<u>\$ 2,046</u>	

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, 2004**

	PENSION TRUST FUNDS	FINCH MEMORIAL ARBORETUM PRIVATE-PURPOSE TRUST FUND
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 11,915,326	\$ -
Plan members	4,152,843	-
Private donations	-	8,345
Total contributions	<u>16,068,169</u>	<u>8,345</u>
Investment earnings:		
Net (decrease) in fair value of investments	12,302,627	-
Interest and dividends	6,515,891	-
Total investment earnings (loss)	<u>18,818,518</u>	<u>-</u>
Less: investment expense	861,957	-
Net investment earnings (loss)	<u>17,956,561</u>	<u>-</u>
Miscellaneous revenue	<u>1234</u>	<u>2,046</u>
Total additions	<u>34,025,964</u>	<u>10,391</u>
<b>DEDUCTIONS</b>		
Benefits	18,500,067	-
Refunds of contributions	576,433	-
Administrative expenses	650,706	-
Arboretum maintenance	-	11,152
Total deductions	<u>19,727,206</u>	<u>11,152</u>
Change in net assets before prior period adjustment	14,298,758	(761)
Prior period adjustment	<u>(514,089)</u>	<u>-</u>
Change in net assets	13,784,669	(761)
Net assets - beginning of the year	<u>211,680,047</u>	<u>2,807</u>
Net assets - end of the year	<u>\$ 225,464,716</u>	<u>\$ 2,046</u>

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

**CITY OF SPOKANE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>NOTE</u>		<u>PAGE</u>
1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	32
2	RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS	41
3	DEPOSITS AND INVESTMENTS	42
4	PROPERTY TAXES	45
5	CAPITAL ASSETS	46
6	PENSION PLANS	48
7	RISK MANAGEMENT	53
8	SHORT-TERM DEBT	54
9	LONG-TERM DEBT AND LEASES	54
10	INTERFUND BALANCES AND TRANSFERS	62
11	JOINT VENTURES	64
12	ENTERPRISE FUND DISCLOSURES	65
13	COMMITMENTS AND CONTINGENCIES	72
14	SEGMENT INFORMATION FOR ENTERPRISE FUNDS	74
15	PRIOR PERIOD ADJUSTMENTS	75
16	SUBSEQUENT EVENTS	75
17	LEGAL MATTERS	76



**CITY OF SPOKANE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**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 197,400 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 provides for the most significant change in financial reporting in over twenty years and is 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 permits 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 plans to implement the infrastructure-related portion by the scheduled phase in year of 2006.

**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 11, 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 changes in net assets) 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 **HUD Section 108 Loan Guarantee Fund** accounts for the resources accumulated and payments made for principal and interest on U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates related to a downtown redevelopment project.

The **Parking Facilities Fund** accounts for monies accumulated or expensed for municipal purposes of maintenance and operations of City owned parking facilities.

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 office.

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>
Parking Meter Fund	\$ 63
Under Freeway Parking	\$ 18,394
Real Estate Rental Fund	\$ 28,402
Hotel / Motel Tax Fund	\$ 117,063
Community Development Fund	\$ 353,827
Parking Facilities Fund	\$ 424,756



The Parking Meter Fund is a result of operating expenditures in excess of amounts budgeted. The Under Freeway Parking Fund amount is a result of expenditures related to the reimbursement of costs to the Park Department for maintenance of parking facilities. The Real Estate Rental Fund amount results from expenditures related to repairs and maintenance of rental properties. The Hotel / Motel Tax Fund amount is a result of contractual obligations for amounts due to fund is based on a percentage of revenue. The excess expenditures were offset by corresponding increase of revenue received. The Community Development Fund is a result of transactions to record contributions of fixed assets donated to other funds and payment on the HUD 108 loan. The Parking Facilities Fund amount is a result of operating and capital expenditures in excess of amounts budgeted.

#### Funds with Deficit Fund Balances or Net Assets -

The following funds reported deficit fund balances or retained earnings as of December 31, 2004:

<u>FUND</u>	<u>AMOUNT</u>
Special Assessment Construction Fund	\$ 987,565
Workers' Compensation Fund	\$ 2,807,999

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.

The Workers' Compensation fund deficit resulted from an increase in claims settlement costs and a revised estimate of claims liability based upon an actuarial review. The actuarial study includes a funding plan to eliminate the deficit over a reasonable period of time. See Note 7 for details of the funding plan.

#### **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, 2004, the treasurer was holding \$43,486,403 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, purchasing and stores fund, 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 an 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 are shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note 12, Enterprise Fund Disclosures.

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

Cash and Investments – Debt Service	\$	24,839,110
Cash and Investments – Landfill Closure		3,761,063
Cash and Investments – Customer Deposits		853,946

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 12, 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 1 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.

Pursuant to GASB Statement #34, an extended period of deferral (FY 2006) is available before the requirement to record and depreciate infrastructure assets acquired before the implementation date. The City plans to fully meet this requirement. This category is likely to be the largest asset class of the City and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, traffic signals, etc.

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
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; and five weeks are accrued at the beginning of the twentieth 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 9)

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's Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System BARS manual. The purpose of this manual is to provide 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	\$ 93,514,900
Deferred Amounts on Bond Issuance	2,988,553
Due to Other Governments and Banks	53,423,782
Compensated Absences	7,536,587
Special Assessment Debt	5,518,000
Accrued Interest Payable	<u>2,013,236</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	\$ <u>164,995,058</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 a 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:

Debt Issued or Incurred:	
General Obligation Debt	\$ 24,151,000
Unamortized Premium on General Obligation Debt	1,181,140
Special Assessment Debt	1,028,000
Due to Other Governments/Banks	33,197,000
Principal Repayments:	

General Obligation Debt	(6,864,202)
Due to Other Governments/Banks	(4,211,404)
Special Assessment Debt	<u>(1,465,000)</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities

\$ 47,016,534

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:

Compensated absences	\$ (298,303)
Accrued interest	(214,487)
Amortization of premium on General Obligation Debt	<u>46,484</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(466,306)</u>

### 3. DEPOSITS AND INVESTMENTS

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 \$257,967,606. 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). Federal depository insurance also covers these deposits up to \$100,000.

#### INVESTMENTS

The City has a written Investment Policy, dated March 18, 1991, which has been adopted by the City Council. All investments of City funds are made in compliance with State law and in accordance with applicable legal interpretations. The City's responsibility in the investment of public funds is to seek the highest rate of return available in the market consistent with the primary concerns of security, legality, and liquidity. The City may invest in the following securities:

1. U.S. Treasury Bills.
2. U.S. Treasury Notes, Bonds, or Certificates of Indebtedness.
3. U.S. Government Agency Securities, including but not limited to, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association.

4. U.S. Government-Sponsored Corporations, including but not limited to, Farm Credit System, Federal Land Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association (Fannie Mae).
5. Certificates of Deposit of Financial Institutions (either banks or thrifts) which are a "Qualified Public Depository" as defined by RCW 39.58.010 (2) and in accordance with the restrictions therein.
6. Savings or time accounts in banks, trust companies, savings and loan associations, and mutual savings banks which are doing business in this state, up to the amount of the insurance afforded such accounts by the Federal Deposit Insurance Corporation or by the Federal Savings and Loan Insurance Corporation. Savings or Time Deposits may exceed Federal insurance limits if covered by the Public Deposit Protection Commission.
7. Bankers Acceptances drawn from a list of the top 200 U.S. banks and subject to conditions as outlined in the Investment Policy.
8. Repurchase Agreements providing that the underlying securities are acceptable (normally U.S. Government or Agency Securities) and subject to conditions as outlined in the Investment Policy.
9. Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
10. General Obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
11. Subject to compliance with RCW 39.56.030, registered warrants of a local government in Spokane County. This includes Local Improvement District warrants, which are within the protection of the Local Improvement Guaranty Fund.
12. Shares of mutual funds with portfolios consisting of only U.S. government bonds or U.S. government guaranteed bonds issued by federal agencies with average maturities less than four years.
13. Shares of money market funds with portfolios consisting of only bonds of state and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.
14. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.
15. Washington State Local Government Investment Pool as authorized by City of Spokane Resolution 84-59.

The City's Investment Policy precludes any investing in Reverse Repurchase Agreements and the investment in any securities must be approved for funds subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code.

The City settles investment purchases on a "Delivery versus Payment" (DVP) basis. DVP requires: 1) Security settlements through a third party (Bank of America); 2) Instructions regarding transactions from the City's investment personnel to Bank of America after transaction verification;

and 3) Disbursement of funds by Bank of America. The DVP method of settlement is used on all securities other than Certificates of Deposit or bank deposits. Bank investments are covered by WSPDPC and Federal Depository insurance.

The investment policy for the City's pension trust funds is set by the Board of Administration in accordance with the Revised Code of Washington (RCW 35.39). The investment policy is documented and in written form. The investment instruments authorized by this policy primarily include stocks, bonds, mortgages, guaranteed insurance contracts and money market instruments. The Chief Financial Officer acts as the custodian for the fund. All equity purchases and corporate bonds are registered in the name of the Spokane Employees' Retirement System and are at a bank held in safekeeping. The Chief Financial Officer has a written contract with Bank of New York to act as an independent third party custodian to hold the following securities separate from its assets: U.S. Government and government agency securities, bankers acceptance notes, and other non-registered securities.

Investments of the City pension systems, governmental, and proprietary funds are reported at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. As a general policy investments are normally held to maturity. As a result, unrealized gains and losses resulting from adjustments to fair value are not usually realized. The Retirement and Pension Plans note more fully describes the investment policies of the Spokane Employees' Retirement System and the Spokane Firemen's Pension Fund. Unrealized losses for governmental activities totaled \$ 63,844.

Investments are categorized to give an indication of the risk assumed:

- (1) Insured or registered, or securities held by the government of its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

All of the City's investments were found to be Category 1 type investments.

<b>Category 1:</b>	<b>CARRYING AMOUNT</b>	<b>REPORTED AMOUNT / FAIR VALUE</b>
U.S. Government Securities	\$ 15,171,622	\$ 15,109,302
LID Progress Warrants	604,128	604,128
Certificates of Deposit	120,786,000	120,786,000
Employees' Retirement Fund		
Fixed Income:		
Corporate/Government Securities	73,710,534	75,567,322
Common Stock	104,338,614	125,752,328
Firefighters' Pension Fund:		
Fixed Income:		
Corporate/Government Securities	10,842,056	11,449,235
	<u>\$ 323,868,131</u>	

**Investments not Subject to Categorization:**

Investment in State Treasurer's Investment Pool	136,213,153
Investment in Money Market Securities	134,936
Investment in Savings Accounts	833,517
Employees' Retirement Fund:	
Money Market Securities – Short Term	7,189,220
Firefighters' Pension Fund:	
Government Fund – Short Term	3,525,531
Total	<u>\$ 497,164,672</u>

**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 2004 was \$3.42 per \$1,000 on an assessed valuation of \$9,226,459,861, for a total regular levy of \$32,063,914. 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 2004, the City levied an additional \$.48 per \$1,000 for Emergency Medical Services for a total additional levy of \$4,509,429.

## 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance Jan 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance Dec 31, 2004</b>
Capital assets not being depreciated:				
Land	\$ 8,727,698	\$ 381,382	\$ -	\$ 9,109,080
Construction in Progress	14,798,478	15,789,323	(3,744,632)	26,843,169
Total capital assets not being depreciated	23,526,176	16,170,705	(3,744,632)	35,952,249
Capital assets being depreciated:				
Buildings	64,343,258	688,707	-	65,031,965
Improvements other than buildings	15,202,058	816,472	-	16,018,530
Machinery and equipment	64,185,092	8,115,501	(4,537,157)	67,763,436
Infrastructure	75,609,450	9,470,928	-	85,080,378
Total capital assets being depreciated	219,339,858	19,091,608	(4,537,157)	233,894,309
Less accumulated depreciation for:				
Buildings	(17,490,282)	(1,672,531)	-	(19,162,813)
Improvements other than buildings	(5,949,782)	(1,093,196)	-	(7,042,978)
Machinery and equipment	(38,593,351)	(4,169,703)	3,646,026	(39,117,028)
Infrastructure	(11,620,855)	(4,204,103)	-	(15,824,958)
Total accumulated depreciation	(73,654,270)	(11,139,533)	3,646,026	(81,147,777)
Total capital assets being depreciated, net	145,685,588	7,952,075	(891,131))	152,746,532
Governmental activities capital assets, net	\$ 169,211,764	\$ 24,122,780	\$ (4,635,763))	\$ 188,698,781



<b>Business-Type Activities</b>	<b>Beginning Balance Jan 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance Dec 31, 2004</b>
Capital assets, not being depreciated:				
Land	\$ 14,041,116	\$ 7,108,759	\$ -	\$ 21,149,875
Construction in Progress	<u>32,510,513</u>	<u>25,707,495</u>	<u>(40,194,038)</u>	<u>18,023,970</u>
Total capital assets, not being depreciated	46,551,629	32,816,254	(40,194,038)	39,173,844
Capital assets, being depreciated:				
Buildings	207,827,453	11,387,975	(670,706)	218,544,722
Improvements other than buildings	18,969,621	12,410,888	(4,420)	31,376,090
Machinery and equipment	84,125,549	8,908,045	(5,539,123)	87,494,472
Infrastructure	<u>266,116,696</u>	<u>12,464,930</u>	<u>(191,592)</u>	<u>278,390,034</u>
Total capital assets being depreciated	577,039,318	45,171,838	(6,405,840)	615,805,316
Less accumulated depreciation for:				
Buildings	(95,394,547)	(6,701,135)	670,706	(101,424,976)
Improvements other than buildings	(8,851,634)	(1,437,719)	4,420	(10,284,933)
Machinery and equipment	(44,223,892)	(4,913,095)	4,678,405	(44,458,583)
Infrastructure	<u>(80,336,500)</u>	<u>(4,099,077)</u>	<u>117,696</u>	<u>(84,317,880)</u>
Total accumulated depreciation	<u>(228,806,574)</u>	<u>(17,151,025)</u>	<u>5,471,227</u>	<u>(240,486,372)</u>
Total capital assets, being depreciated, net	<u>348,232,746</u>	<u>28,020,813</u>	<u>(934,613)</u>	<u>375,318,944</u>
Business-type activities capital assets, net	\$ <u>394,784,374</u>	\$ <u>60,837,095</u>	\$ <u>(41,128,651)</u>	\$ <u>414,492,788</u>

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

<b><u>Governmental Activities:</u></b>	
General Government	\$ 358,460
Judicial	27,725
Public Safety	1,944,847
Transportation	3,837,170
Economic Environment	97,180
Culture and Recreation	<u>1,653,481</u>
Total depreciation expense – governmental activities	\$ <u>7,918,863</u>



Business-Type Activities:

Water	\$	2,776,907
Sewer		6,288,834
Solid Waste		7,958,034
Other business-type activities		372,290
Total depreciation expense – business-type activities	\$	17,396,065

## **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.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Statement 5 that, with some exceptions, must be used by a public employee retirement system (PERS). The standardized measurement is the actuarial present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. The information presented in the required supplementary information portion of the financial report 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 administered by the City of Spokane. 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.

A standardized measure of the pension benefit was adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among PERS and among employers.

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

#### Plan Description

- A. The Spokane Employees' Retirement System is a single-employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapter 4.14 of the Spokane City Code.
- B. All permanent employees of the City of Spokane are eligible to belong to the Retirement System with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters Retirement System. There are currently 862 retirees and beneficiaries receiving benefits; 78 vested terminated employees, 21 of which are vested under the provisions of portability, entitled to future benefits; and 1,430 active members of the System.
- C. The Spokane Employees' Retirement System provides retirement, death, and disability benefits. All employees who participate in the Retirement System are eligible for service retirement after completing five years of service and are age 50 or older. 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, to a maximum of 64.5%. This benefit may be reduced according to the option selected.

- D. Member and employer contribution rates are established by City Code, Chapter 4.14. Member contributions are 6.72% of basic compensation and are deducted from the member's salary by the City Auditor and paid into the retirement fund. The City government matches the employee's contribution at 6.72% of compensation. 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. This measure of the benefit obligations considers only benefits earned as of the valuation date, using participant service and earnings as of the valuation date. The funding objective of the Retirement System is to maintain this ratio between 110% and 130%. The accumulated benefit funding ratio of 99.9% falls below the target range. The funding ratio has increased by 1.60% during 2004, primarily because of favorable 2004 asset experience. However, it has not returned to its level prior to the relatively poor returns in the equity markets in 2000 through 2002.

#### Summary of Significant Accounting Policies and Plan Asset Matters

- A. The financial statements were prepared using the accrual basis of accounting and were done in compliance with all the applicable GASB pronouncements including GASB 25 and 27. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. All fixed income, common stock, and short-term investments are reflected in the Statement of Plan Assets at fair value. Short-term investments are reported at cost, which approximates fair market value. Fixed income securities and common stock traded on national exchanges are valued at fair market value. 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. In accordance with industry practice, interest and dividend income are recognized on an accrual basis.
- B. The investments of the Spokane Employees' Retirement System are governed by an investment authority known as the "prudent person rule". The prudent person rule, as set forth by statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System's investments are categorized to give an indication of the level of risk assumed by the fund at year-end. As of December 31, 2004, all fixed income and common stock were classified in Category 1. Category 1 includes insured or registered investments for which securities are held by the system or its agent in the System's name.
- C. 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 Required and Contributions Made

- A. Spokane Employees' Retirement System is a pension plan covering employees of the City of Spokane with the exception of police and firefighters who are members of the State LEOFF Retirement System. Members contribute 6.72% of basic compensation. The employer also contributes 6.72% of basic compensation. The City of Spokane is obligated by City Ordinance to make all required contributions to the plan. Contributions from employees/employer totaling \$8,248,653 were made in 2004. The 2004 payroll for employees covered by the plan was \$60,949,554.

- B. The funding of the Plan is based on the Individual Entry Age Normal method of funding. This method was used explicitly until 1985. At that time, it was determined that this method would result in significantly over funding the plan as measured by the accumulated benefit funding ratio. The Retirement System defined its funding objectives as an accumulated benefit funding ratio between 110% and 130%, and stable contributions as a percent of pay. As a result, based on the advice of the plan's actuary, the Retirement System reduced the total contribution rate to 11.64% of salary and made certain benefit improvements. Periodic actuarial valuations are made to determine if the funding objectives are being met. In 1992, an assumption study was performed and assumptions were adjusted to more closely reflect the actual experience of the plan. The contribution rate was increased to 13.44% of salary to fund the plan improvement and assumption changes.

#### Required Supplementary Information

- A. Historical trend data to provide information on the Spokane Employees' Retirement System is presented following the note section of this report. This information is intended to help assess Spokane Employees' Retirement System funding comparisons with other public employee retirement systems.

#### **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 are single-employer defined benefit pension funds established and administered by the City in accordance with the requirements of the Revised Code of Washington. Since the effective date of the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) on March 1, 1970 no payroll deductions for active employees have been taken under these pension plans.

These pension plans provide retirement benefits to all firefighters and uniformed police who retired prior to March 1, 1970 and limited benefits to those retiring after that date who are mainly covered by the State LEOFF system. Firefighters and uniformed police hired after October 1, 1977 are not covered by these plans. Eligible firefighters may retire after 25 years of service and attaining the age of 50; uniformed police officers may retire after 25 years of service with no age requirement. Both pension plans provide death, disability, and medical benefits. There are 27 active Police officers and 45 active Firefighters covered under these plans as of December 31, 2004. Retirees and beneficiaries of deceased retirees currently receiving benefits number 250 for the Police Relief and Pension Plan and 295 for the City of Spokane Firefighters Pension Fund as of December 31, 2004.

The City is also responsible for the medical expenses for covered active and retired employees. All benefits are funded on a pay-as-you-go basis.

#### Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements were prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which they are due and the City has made a formal commitment to provide the contributions. Expenses are recorded when the liabilities are recognized when due and payable in accordance with terms of the plan.

During 1997, the City elected early adoption of the provisions of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.", GASB Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered

by Defined Benefit Pension Plans.” and GASB Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers.”

All fixed income and short-term investments are reflected in the Statement of Plan Assets at fair value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities 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 on accrual basis. In accordance with industry practice, interest and dividend income is recognized on an accrual basis. The investments of the Spokane Firemen’s Pension System are governed by an investment authority known as the “prudent person rule”. The prudent person rule, as set forth by statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System’s investments are categorized to give an indication of the level of risk assumed by the fund at year-end. As of December 31, 2004, all fixed income securities were classified in Category 1. Category 1 includes insured or registered investments for which securities are held by the system or its agent in the System’s name.

No investments were made in loans to or leases with any Spokane Firefighters Pension Fund official, government employer official, or party related to a Spokane Firefighters Pension Fund official.

#### Contributions Required and Contributions Made

The City of Spokane is obligated by ordinance and RCW to make all required contributions to the plan. In 2004 the major sources of funding for the Firemen’s Pension fund were from property taxes, investment earnings, and the State fire insurance premium tax. The major source of funding for the Police Pension fund was from local retail sales and use tax. There have been no required employee contributions to these plans since March 1, 1970.

An actuarial report of both plans was performed as of December 31, 2004. 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 ARC.

The actuarial assumptions involving investment earnings and salary growth for both pension systems have been determined in accordance with the recommendation of the System’s retained actuary. The actuarial assumptions for both funds used to compute the contribution requirements are the same. The current assumptions include a 4.5% long-term investment return assumption of present and future assets; a 2.75% per year salary inflation assumption, compounded annually; Consumer Price Index increases of 3.25% per year. Medical expenses are based on actual medical costs for covered participants allocated by age. A medical trend factor reflecting medical inflation and an age utilization factor reflecting higher medical costs at older ages is developed from the experience and used to project future medical benefits. Additional information concerning actuarial assumptions is contained in the Actuarial Report available in the Retirement Office at Spokane City Hall.

Following the note section of this report is supplementary information on retirement benefits that is required to be disclosed in financial statements to comply with GASB Statements No. 25 and 26. Paragraph 8 of Statement 26 states that these supplementary schedules are not required for post employment healthcare plans. Since the medical benefits are provided for on a pay-as-you go basis, these exhibits were not prepared for the healthcare plans.

## 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 is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. 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, 2003, the LEOFF Plan 2 Retirement Board was established 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. Effect January 1, 2003, firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county or district, the EMT'S job was relocated to a fire department from another city, town, county or district. 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 only by the State Legislature.

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 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

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 retirements prior to the age of 53 are reduced 3 percent of each year that the benefit commences 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 3 percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	<hr/> 24,374



### Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement systems in accordance with 41.45 RCW. 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. 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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.19%	325%**
Employee	0.00%	5.09%
State	N/A	2.02%

\* The employer rates include the employer administrative expense fee currently set at 0.19%.

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>
2004	\$ 11,093	\$ 1,193,104
2003	12,026	983,455
2002	14,823	2,686,916

## **7. RISK MANAGEMENT**

The City is self-insured for Unemployment Insurance, Worker's Compensation, General Liability and Medical/Dental benefits. Unrestricted net assets (deficit) in the self-insurance funds as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Risk Management Fund	\$ 2,153,973	\$ 1,436,793
Worker's Compensation Fund	(2,807,999)	(169,840)
Unemployment Insurance Fund	419,313	196,650
Self Funded Medical/Dental Fund	3,522,037	3,838,209

The City carries the following excess insurance coverages.

Worker's 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. 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 City

carries boiler and machinery insurance with a deductible of \$5,000, and coverage up to \$50 million loss limits.

#### Claims Liability Valuation

For 2004 the City conducted an actuarial review to determine the estimated claims liability for the Risk Management and Worker's Compensation funds. The estimated loss reserves for the Risk Management fund totaled \$3,745,414 and the Worker's Compensation fund totaled \$4,063,562. The Self-Funded Medical-Dental fund reported IBNR claims of \$1,650,000. 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.

GASB 31 provides that deficits in the self-insurance internal service funds should be charged back to the other funds over a reasonable period of time. To address the deficit in the Risk Management fund, the City has developed a 10-year funding plan to eliminate the deficits. The first year of this funding plan was 2000.

### 8. SHORT-TERM DEBT

At December 31, 2004, the City had outstanding \$604,128 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 3.48% to 5.00%. A summary of progress warrant activity for 2004 follows:

Balance, January 1, 2004	\$	1,870,230
Progress warrants issued		737,042
Progress warrants redeemed		(2,003,145)
Balance, December 31, 2004	\$	604,128

### 9. 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 \$93,390,000.

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
1996 LTGO Bond	Governmental Activities	3.90% - 5.30%	\$ 235,000
1997 UTGO Bond	Refunding – Governmental Activities	6.125% - 9.125%	13,195,000
1999 LTGO Bond	Governmental & Business-Type Activities	3.90% - 5.375%	3,970,000
1999 UTGO Bond	Governmental Activities	5.50% - 5.90% - 5.125%	12,150,000
1999 UTGO Bond	Governmental Activities	5.40%	14,175,000
2003 LTGO Bond	Governmental Activities	2.75% - 5.00%	12,245,000
2003 LTGO Bond	Governmental Activities	1.50% - 5.25%	14,000,000
2004 UTGO Bond	Governmental Activities	3.00% - 5.25%	24,151,000
Total General Obligation Bonds			\$ <u>94,121,000</u>

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

Governmental Activities			
	Principal	Interest	Total Requirements
2005	\$ 10,342,622	\$ 4,230,442	\$ 14,573,064
2006	13,269,042	3,886,922	17,155,964
2007	13,816,948	3,274,714	17,091,662
2008	8,349,573	2,660,730	11,010,303
2009 – 2013	29,616,938	7,821,286	37,438,224
2014 - 2018	11,319,777	3,033,726	14,353,503
2019 - 2023	5,550,000	1,275,750	6,825,750
2024	1,250,000	65,625	1,315,625
	\$ <u>93,514,900</u>	\$ <u>26,249,194</u>	\$ <u>119,764,094</u>

Business-Type Activities			
	Principal	Interest	Total Requirements
2005	\$ 48,378	\$ 30,952	\$ 79,330
2006	50,958	28,654	79,612
2007	53,052	26,234	79,285
2008	55,427	23,634	79,061
2009 – 2013	323,062	72,774	395,836
2014	75,223	4,043	79,266
	\$ <u>606,100</u>	\$ <u>186,291</u>	\$ <u>792,391</u>

The City of Spokane has also received government, bank, and other loans to provide for the acquisition and construction of capital projects and other purposes. Government, bank, 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	1.00% - 3.00%	\$ 13,124,858
HUD Sec 108 Certificates	Governmental Activities	6.16% - 7.93%	21,350,000
Bond Anticipation Note	Governmental Activities	variable	29,685,660
State Revolving Loan Reimbursement	Business Type Activities	1.50%	1,275,443
Agreement - Genstar	Business Type Activities	5.40%	122,526
Total Other Loans			\$ <u>65,558,487</u>

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

Governmental Activities			
	Principal	Interest	Total Requirements
2005	\$ 30,950,724	\$ 1,862,102	\$ 32,812,826
2006	1,335,064	1,418,817	2,753,881
2007	1,410,064	1,349,954	2,760,018
2008	1,455,619	1,275,296	2,730,915
2009 - 2013	8,364,560	5,037,150	13,401,710
2014 - 2018	9,745,468	2,023,922	11,769,390
2019 - 2023	162,281	3,246	165,527
	\$ <u>53,423,780</u>	\$ <u>12,970,487</u>	\$ <u>66,394,267</u>

Business-Type Activities			
	Principal	Interest	Total Requirements
2005	\$ 1,000,894	\$ 198,846	\$ 1,199,740
2006	1,001,485	180,887	1,182,372
2007	955,888	162,711	1,118,599
2008	3,365,418	466,178	3,831,596
2009 - 2013	3,518,500	276,940	3,795,440
2014 - 2018	2,292,523	33,613	2,326,136
	\$ <u>12,134,707</u>	\$ <u>1,319,176</u>	\$ <u>13,453,883</u>

## Special Assessment Bonds

Special assessment bonds outstanding at December 31, 2004 were \$5,518,000. 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 12/31/04	Due Within One Year
196	11/15/95	11/15/05	5.785%	\$ 15,000	\$ 15,000
197	06/15/96	06/15/08	5.780%	95,000	55,000
198	09/15/96	09/15/08	5.750%	20,000	20,000
199	12/15/96	12/15/08	5.580%	60,000	60,000
200	06/01/97	06/01/07	5.875%	50,000	20,000
201	09/01/97	09/01/08	5.750%	125,000	50,000
202	05/01/98	05/01/08	5.610%	70,000	30,000
203	08/01/98	08/01/08	5.450%	140,000	50,000
204	10/01/98	10/01/08	5.390%	50,000	50,000
205	03/01/99	03/01/11	4.988%	105,000	25,000
206	07/15/99	07/15/11	5.409%	265,000	65,000
207	11/15/00	09/15/12	5.950%	260,000	85,000
208	04/01/01	04/01/13	5.500%	95,000	20,000
209	03/15/02	03/15/14	5.500%	720,000	105,000
210	10/15/02	10/15/14	4.750%	515,000	80,000
211	06/15/03	06/15/13	4.280%	630,000	115,000
212	04/01/04	04/01/16	3.480%	270,000	45,000
213	07/01/04	07/01/26	5.000%	758,000	78,000
97216	12/15/00	09/15/12	6.900%	1,275,000	200,000
Total				\$ 5,518,000	\$ 1,168,000

## Conduit Advance Refunded Debt Obligations

The Lease Revenue Bonds of 1995 were issued to provide for construction of parking facilities for the Spokane Memorial Arena. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of rentals to be received from lease agreements between the City and the Public Facilities District. The bonds did not constitute a debtor pledge of the faith and credit of the City, the County, or the State. In 2003, the Spokane Public Facilities District paid, redeemed and retired the Arena Lease Revenue Bonds of 1995 by the sale of revenue bonds. The proceeds of the new bonds were placed in escrow and on January 1, 2004 fully paid the defeased bonds.

## 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 \$137,757,406. Revenue bonds outstanding at year-end are as follows:

Name of Issuance	Interest Rate	Debt Outstanding
1991 Golf System	5.25% - 6.875%	\$ 369,965
1995 Solid Waste System Refunding	4.36% - 5.75%	15,545,000
1997 Golf System Refunding	4.00% - 5.25%	3,155,000
1998 Solid Waste System Refunding	6.00% - 6.50%	46,340,000
2001 Solid Waste System Refunding	4.00% - 5.25%	20,550,000
2003 Solid Waste System Refunding	2.00% - 4.125%	13,685,000
Total Revenue Bonds		\$ <u>99,644,965</u>

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

	Principal	Interest	Total Requirements
2005	\$ 12,556,479	\$ 5,368,987	\$ 17,925,466
2006	13,238,486	4,647,725	17,886,211
2007	16,200,000	3,690,971	19,890,971
2008	9,940,000	2,796,636	12,736,636
2009	17,495,000	2,233,923	19,728,923
2010 – 2013	30,215,000	1,839,578	32,054,578
	\$ <u>99,644,965</u>	\$ <u>20,577,820</u>	\$ <u>120,222,785</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, 2004, the City has \$14,266,636 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$24,839,110 in reserves as required by bond indentures.

## B. Changes in Long-Term Liabilities

During the year ended December 31, 2004, the following changes occurred in long-term liabilities:

	Balance Jan 1, 2004	Additions	Reductions	Balance Dec 31, 2004	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 76,228,102	\$ 24,151,000	\$ 6,864,202	\$ 93,514,900	\$ 10,342,622
Less deferred amounts:					
For issuance premiums (discounts)	602,848	1,181,140	6,214	1,777,774	31,910
On refunding	1,251,055	-	40,276	1,210,779	81,881
Special Assessment Debt with Governmental Commitment	5,955,000	1,028,000	1,465,000	5,518,000	1,168,000
Government, Bank and Other Loans	24,438,185	33,197,000	4,211,404	53,423,781	30,950,724
Capital Leases	236,820	-	84,067	152,753	46,935
Claims and Judgments	6,217,010	3,241,966	-	9,458,976	9,458,976
Compensated Absences	8,033,215	290,829	-	8,324,044	543,148
Governmental Activity Long-Term Liabilities	<u>\$ 122,962,235</u>	<u>\$ 63,089,934</u>	<u>\$ 12,671,163</u>	<u>\$ 173,381,007</u>	<u>\$ 52,624,197</u>
<b>Business-Type Activities:</b>					
<b>Bonds:</b>					
General Obligation Bonds	\$ 651,898	\$ -	\$ 45,798	\$ 606,100	\$ 48,378
Revenue Bonds	111,755,943	-	11,987,071	99,768,872	12,556,479
Less deferred amounts:					
For issuance premiums (discounts)	1,139,954	-	284,450	855,504	-
On refunding	(2,175,446)	532,321	-	(1,646,125)	-
Total Bonds Payable	111,369,349	532,321	12,317,319	99,584,352	12,604,857
Government, Bank and Other Loans	12,856,119	278,922	1,000,334	12,134,707	1,000,894
Accrued Landfill Liability	1,714,125	-	-	1,714,125	-
Compensated Absences	1,957,132	108,408	-	2,065,540	123,893
Business-Type Activity Long-Term Liabilities	<u>\$ 127,896,725</u>	<u>\$ 919,651</u>	<u>\$ 13,317,653</u>	<u>\$ 115,498,724</u>	<u>\$ 13,729,644</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 \$787,718 of internal service funds compensated absences are included in the above amounts.

## Legal Debt Margin

The assessed valuation of the City for year 2005 for purposes of determining the legal debt margin is \$9,578,000,897. 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:

	AMOUNT
General Purposes Voted and Non-Voted Debt - 2 1/2% (1)	\$ 127,589,390
Utility Voted Debt - 2 1/2%	239,450,022
Open Space & Park Facilities Voted Debt - 2 1/2%	251,600,022
Total Remaining Debt Capacity	\$ <u>618,639,434</u>

(1) Includes \$75,690,538 debt capacity available for non-voted debt.

## C. Leases

### 1. Capital Leases

The City has entered into lease agreements for financing various pieces of equipment. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The capital assets acquired through capital leases are as follows:

#### Governmental Activities

	2004
Vehicles	\$ 459,682
Less: Accumulated Depreciation	(251,460)
Total	\$ <u>208,222</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2004 were as follows:

YEAR ENDED DECEMBER 31,	Governmental Activities
2005	\$ 54,051
2006	46,417
2007	23,418
2008	23,418
2009	23,418
Total minimum lease payments	170,722
Less: Amount representing interest	17,980
Present value of net minimum lease payments	\$ <u>152,742</u>

## 2. Operating Leases

The City entered into a twenty-three year 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 commenced on May 1, 1988. The current rental rate is five cents per square foot per annum and the rate will be adjusted to the current market value on the eighth anniversary of the commencement date and on May 1 for each five year period thereafter. The City has the option of renewing the lease for four consecutive five-year periods subject to certain conditions. Lease payments for the year ended December 31, 2004 amounted to \$108,900.

### Schedule of Minimum Future Rental Payments

<u>Year Ended</u> <u>Dec. 31</u>	<u>Amount</u>
2005	108,900
2006	108,900
2007	108,900
2008	108,900
2009	108,900
Thereafter	36,300
Total minimum future rental payments	\$ <u>580,800</u>

The City entered into a master contract for personal computers with Dell Computers. These are operating leases for 3 years for various departments. Lease payments for the year ended December 31, 2004 amounted to \$216,376. The City also leases two Xerox printers and an ORIX Disk Array which are used for all departments for printing and data storage. Lease payments for the year ended December 31, 2004 amounted to \$109,024.

### Schedule of Minimum Future Rental Payments

<u>Year Ended</u> <u>Dec. 31</u>	<u>Amount</u>
2005	\$ 256,639
2006	138,259
2007	66,859
2008	20,284
Total minimum future rental payments	\$ <u>482,041</u>

# 10. INTERFUND BALANCES AND TRANSFERS

## A. Interfund Balances

Loans between funds are classified as interfund loans receivable or payable on the fund financial statements. Within the city, one fund may borrow from another when specifically authorized by council resolution. 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, 2004 were as follows:

	Interfund Loan Receivable	Interfund Loan Payable	Due From Other Funds	Due to Other Funds
General Fund	\$ -	\$ -	\$ 2,490,248	\$ 908,350
Nonmajor				
Governmental Funds	80,000	80,000	2,324,904	3,403,172
Water Fund	-	-	272,856	438,985
Sewer Fund	-	-	14,025	770,099
Solid Waste Fund	-	-	100	1,117,341
Nonmajor				
Enterprise Funds	-	-	413,224	86,840
Internal Service				
Funds	-	-	1,855,974	646,543
Total Government Wide	\$ <u>80,000</u>	\$ <u>80,000</u>	\$ <u>7,371,330</u>	\$ <u>7,371,330</u>

B. Interfund Transfers

Interfund Transfers for 2004 are as follows:

	Transfer From:						Total	
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Solid Waste Fund	Nonmajor Enterprise Funds		Internal Service Funds
Transfer To:								
General Fund	\$ -	\$ 1,692,917	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000	\$ 4,692,917
HUD Section 108 Guaranty	-	1,529,319	-	-	-	-	-	1,529,319
Nonmajor governmental funds	28,553,947	6,657,057	-	-	-	11,152	233,226	35,455,382
Nonmajor enterprise funds	300,000	-	-	-	781,908	-	-	1,081,908
Internal Service funds	67,559	1,498,564	30,694	140,007	-	-	106,188	1,843,012
Total	\$ 28,921,506	\$ 11,377,857	\$ 30,694	\$ 140,007	\$ 781,908	\$ 11,152	\$ 3,339,414	\$ 44,602,539



## 11. 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 moneys are contributed to the support of the Spokane Regional Transportation Council. In 2004, \$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, 2004.

	TOTAL
Total Assets	\$ 183,276,096
Total Liabilities	40,965,898
Total Fund Equity	142,310,198
Total Revenues	45,224,567
Total Expenses	23,604,763
Net Increase in Fund Equity	21,619,804

At December 31, 2004, the airport had \$29,615,000 total long-term revenue bonds outstanding with \$4,010,000 due on the current portion in 2005. 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 \$389,163, \$2,326,804 in post-retirement benefits, and \$4,171,620 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, 2004 for the Spokane Regional Health District.

	TOTAL
Total Assets	\$ 8,443,302
Total Liabilities	2,078,771
Total Fund Equity	6,364,531
Total Revenues	21,067,936
Total Expenses	21,192,550
Net Decrease in Fund Equity	124,614

At December 31, 2004 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 is with the Council.

The unaudited summary below is for the fiscal year ended December 31, 2004. The Spokane Regional Transportation Council is audited by the Office of State Auditor.

	<u>TOTAL</u>
Total Assets	\$ 907,932
Total Liabilities	463,862
Total Fund Equity	444,070
Total Revenues	3,894,977
Total Expenditures	3,805,125
Increase in Fund Equity	89,852

At December 31, 2004 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.

## **12. ENTERPRISE FUND DISCLOSURES**

### **A. Water Fund**

#### Property, Plant and Equipment - Water Segment

Some hydrants and some water mains in the Water fund plant in service 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 \$192,671 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 twelve years as a capital surcharge.

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 \$1,953,560 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 twelve years as a capital surcharge.

### Facility Loss

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 Riverside Park Water Reclamation Facility. As a result of this accident two new digesters will be built and the related co-generation system will be moved and expanded. The preliminary engineering estimate for replacement of this system is \$40,000,000-\$45,000,000; with construction occurring in the years 2005-2007. This unanticipated replacement of a major system at the Riverside Park Water Reclamation Facility will have a significant impact on Sewer Fund reserves which contributed to an increase in the Rate Stabilization Fund Fee from four to seven dollars a month per Equivalent Residential Unit in 2005, and will contribute to future increases in the Rate Stabilization Fund Fee.

## **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.

On January 3, 1989, the City issued \$105,250,000 of City of Spokane Regional Solid Waste Management System Revenue Bonds, Series 1989, to finance part of the cost of improvements and additions to the System. These bonds are secured by and payable from the revenues of the System. A requirement of the bond ordinance was to establish a reserve account to secure the payment of the principal and interest on the bonds. The reserve account is to be an amount equal to the lesser of: a) 10% of the proceeds of the Series 1989 Bonds and additional bonds or, b) the greatest annual debt service with respect to the Series 1989 Bonds and any additional bonds for the then current or any future calendar year or, c) 1.25 times the average annual debt service.

Improvements and additions not paid from proceeds of the Series 1989 Bonds or investment income thereon were paid from a \$60 million grant received from the State of Washington, Department of Ecology. System improvements and additions include, (a) a mass burn waste to energy facility; (b) two transfer stations; and (c) 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.

On January 4, 1988, the City and Puget Sound Power and Light Company, a Washington corporation, entered into an agreement for Firm Power Purchase providing for the purchase by Puget of energy produced by the Facility. Subject to the terms thereof, the electricity agreement requires Puget to purchase all electric output of the Facility, net of in-plant use, for 21 years commencing November 15, 1991.

#### City-County Interlocal Agreements

On July 18, 1988 the City and Spokane County entered into an interlocal agreement relating to, among other things, the increases previously imposed by the City and the County in the tipping fees charged by them for disposal of solid waste at their respective disposal sites in order to provide a resource to be used for the stabilization of tipping fees in the early years of operation of the Facility.

#### Rate Stabilization Assets

Assets as of December 31, 2003	\$ 4,107,438
2004 Resources - Interest Income	<u>56,646</u>
Assets as of December 31, 2004	\$ <u>4,164,084</u>

On October 11, 1988 the City and Spokane County entered into an interlocal agreement which combined previous interlocal agreements into one agreement and provided that, among other things, (a) that, commencing as of October 10, 1988, the County would cease providing solid waste disposal services for solid waste generated in the unincorporated area of the County and the collection of the tipping fees paid for such disposal and the City would provide such solid waste disposal services and collect such tipping fees; (b) that the County would take the appropriate action, pursuant to its Flow Control Ordinance, to direct that solid waste generated in its unincorporated area be disposed of through the System (except as provided in the Flow Control Ordinance).

The interlocal agreement provides that if all or part of the County's Flow Control Ordinance and/or regulations promulgated there under are declared to be invalid by a court of competent jurisdiction

or are not continually enforced by the County and the County's ability to require the delivery of solid waste to the System thereby is impaired, and if the System is operating at a reduced capacity due to the County's total or partial inability to control the flow of solid waste, the County will be obligated either to deliver or cause to be delivered substituted solid waste to the Facility in an amount equal in volume to the solid waste it has represented it can control, or to pay an amount of money which would equal the economic value (including amounts due Wheelabrator Spokane, Inc. and lost energy revenue) of such non-delivered solid waste. In computing the County's obligation to deliver or pay the economic equivalent of non-delivered solid waste, the County will get credit for all solid waste delivered to the System other than solid waste delivered by the City and the Regional Cities (cities and towns within Spokane County having an interlocal agreement with the City) and solid waste delivered to the System by City residents and Regional City residents, or from residents, companies, institutions or others who reside within the City or the Regional Cities but manage their own garbage.

If the County Flow Control Ordinance is valid and the County enforces it continuously and effectively, but the volume of solid waste in the unincorporated area of the County is lower than anticipated, the County is not obligated to pay an economic equivalent or to provide the System with substitute solid waste. If the County, by virtue of its continuous enforcement of the County Flow Control Ordinance, incurs inverse condemnation costs or expenses, such costs or expenses must be reimbursed by the System as a cost of the System or as a cost of maintenance and operation.

Although there is no litigation pending or, to the knowledge of the County, threatened, questioning the validity or the enforceability of the Flow Control Ordinance, there have been a series of recent decisions by the United States federal courts that have held certain bans on the importation of solid waste into a state, and certain bans on the exportation of solid waste from a state, to be violation of the Commerce Clause of the United State Constitution. On May 16, 1994, the United Sates Supreme Court invalidated a solid waste "flow control" control ordinance under the Commerce Clause. *C&A Carbone, Inc. v. Town of Clarkston, New York*, U.S. (Case No. 92-1402). The Court held that the ordinance in question discriminated against interstate commerce (i.e. the service of processing and disposing of solid waste), and was therefore invalid per se. The Court reasoned that the ordinance both deprived out-of-state businesses of access to the local market and subjected certain amounts of solid waste generated in other states to higher tipping fees, thus increasing the costs for out-of-state interests to dispose of solid waste.

Since Spokane County's Flow Control Ordinance generally requires that all solid waste generated in the unincorporated area of the County be disposed of at the Solid Waste System, it prohibits the exportation of such solid waste from the State of Washington and from the County. As a result of *Carbone*, the County is unable to predict the outcome of any challenge to the Flow Control Ordinance based upon the Commerce Clause of the United States Constitution. Nevertheless, a successful challenge to the enforceability of the Flow Control Ordinance could reduce the amount of solid waste being disposed of at the Solid Waste System.

If the Solid Waste System is operating at a reduced capacity due to the County's inability to deliver solid waste to it as a result of the Flow Control Ordinance being declared invalid by a court of competent jurisdiction, the County is obligated under the Interlocal Agreement to provide substitute solid waste or to pay to the Solid Waste System the economic value of the non-delivered solid waste. The County's obligation to make such payments would constitute a non-voted general obligation of the County, and the sources of payment thereof would be the same as the sources of payment of the Bonds.

The interlocal agreement is for a term of 25 years, or for such longer term as the Series 1989 Bonds or additional bonds remain outstanding, and will be renewed automatically for successive 20-year terms unless the City and County agree not to renew it.



### 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, long-term receivables include the following amounts for Spokane County.

YEAR	COUNTY LANDFILL CLOSURE COSTS	ALLOCATED INTEREST	CLOSURE COMPONENT	BALANCE
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
TOTAL	\$ 20,000,000			

### Issuance of Revenue Bonds

In April of 1992, the City issued \$41,625,000 of Regional Solid Waste Management System revenue bonds. These bonds were issued for the purpose of financing certain costs of the system that include landfill closure and cleanup costs and landfill construction costs. The bonds have interest rates ranging from 3.25% to 6.50% with the final payment due December 1, 2011. In December 1993 the City issued \$36,685,000 of Regional Solid Waste Management System revenue refunding bonds. The bonds have interest rates ranging from 2.8% to 5.25% with the final payment due December 1, 2009. In May 1995 the City issued \$15,580,000 of Regional Solid Waste Management System revenue refunding bonds. The bonds have interest rates ranging from 4.375% to 5.5% with the final payment due December 1, 2010. During October 1998, the city issued \$73,090,000 of Regional Solid Waste Management Revenue Refund Bonds. The bonds have interest rates ranging from 6.0% to 6.50% with the final payment due January 1, 2011. On December 1, 2003, the City issued \$14,515,000 of Regional Solid Waste Management System revenue refunding bonds. The bonds have interest rates ranging from 2% to 4.125%, with the final payment due December 1, 2008.

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 for 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 is being amortized to expense over a 20 year period as these amounts are recovered through rates charged to customers. A full year of amortization was recorded in 2004.

Since 1982, the City has reserved cash for closure and postclosure costs of landfills. The balance in the landfill postclosure account, as of December 31, 2004 was \$2.2 million.

#### Northside Regional Landfill

Beginning in 1992, the City started using a recently completed Northside Regional Landfill for the disposal of nonprocessible waste and demolition debris. The new disposal cell is located approximately six and one-half miles northwest of downtown Spokane and complies with the revised "Minimum Functional Standards for Solid Waste Handling" required by the State of Washington Department of Ecology. The new 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 closed and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City recognizes a portion of these costs in each operating period based on the amount of waste received during the period. However, many of the closure and postclosure care costs will be paid only when the landfill is closing or after it is closed. All amounts recognized are based on what it would cost to perform all closure and postclosure are at year-end. Actual costs may be higher due to inflation. At the end of 2004, it was estimated that total closure and postclosure costs would be approximately \$2.5 million and that 275,000 cubic yards had been disposed at the new Northside Regional Landfill. The new landfill has a remaining useful life of approximately 10 to 20 years. As of December 31, 2004 future closure costs of \$1,714,125 were recorded as a long term liability and \$1,580,000 of restricted cash was reserved for closure of the new cell.

#### Capitalized Interest

For the year ended December 31, 2004, interest cost of \$309,306 was capitalized for City landfill closure costs and \$846,074 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 5.2532%



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.

## **E. Arena Fund**

In November of 1990 a ballot measure was approved by the voters ratifying the creation of the Spokane Public Facilities District and authorizing a 2% surtax on hotel and motel rooms. In 1991 a one-tenth of one percent sales tax increase was approved by the electorate to also be used for financing the construction of a new arena to replace the Spokane Coliseum.

In December of 1990 the City and County each issued \$15.4 million of revenue bonds to provide for a portion of the construction costs until long-term financing arrangements are formalized.

On December 14, 1992, the City issued \$15.4 million of long-term revenue bonds, which include \$11.5 million of Financing Lease Revenue Refunding Bonds, Series A, and \$3.9 million of Annual Lease Revenue Refunding Bonds, Series B. At the same time, Spokane County issued \$15.4 million of Revenue Refunding Bonds and the Public Facilities District issued \$14 million of Hotel/Motel Tax and Sales/Use Tax Bonds.

In June of 1995, the City issued \$7.7 million of lease revenue bonds to redeem \$4.2 million of outstanding notes issued by the City to acquire property for the Arena; construct and improve the parking facilities for the Arena, pay for the cost of demolition of the existing Coliseum; and acquire a Reserve Account Facility for the 1995 bonds and pay associated issuance costs.

### Interlocal Agreements

The following is a summary of certain provisions of the various Interlocal Agreements between the City and the Spokane Public Facilities District.

An Interlocal Agreement, dated March 23, 1992, provides for the City, at the option of the District from time to time, to acquire additional property necessary for the Arena, and to lease such property to the District subject to annual appropriation by the District. Title to any acquired property would remain with the City until the District had paid all acquisition costs related to the property.

An Interlocal Agreement, dated July 28, 1992, established the site on which the Arena would be located, which includes certain property owned by the City and certain property to be acquired by the City. Pursuant to this agreement, the City leased the presently owned property to the District, and agreed that additional property would become part of the leased premises as acquired by the City. The term of the lease was for 20 years.

An Interlocal Agreement, dated November 9, 1992, provides for the operation and management by the City, as Operator of the Arena, including contiguous parking facilities, for a term of five years from the date of opening of the Arena, with a mutual option to extend for an additional three-year period. Major provisions of the Agreement are that the City commits to the District a) the availability and use of certain parking lots, b) the establishment of an operating fund and the deposit of all operating revenues, c) to maintain a capital reserve fund for major capital improvements to the Arena and to maintain an operations repair and maintenance fund, and d) to pay all operating costs from amounts on hand in the fund or, if they are insufficient, from other legally available money of the Operator (referred to as Operator Payments). At the conclusion of each calendar year the City

will be entitled to reimburse itself from amounts on hand in the operating fund for all Operator Payments, but only to the extent such payments exceed \$100,000. The Agreement may be terminated for cause by either party upon 60 days' notice as a result of the failure of the other party to substantially perform the agreement.

#### Lease Agreements

The City entered into three lease agreements with the Public Facilities District. The Financing Lease Agreement provides for the City to lease to the District certain property for use as a multi-purpose arena, together with all the easements, rights of way, and appurtenances, subject to the provisions of the Financing Lease. The term of the Lease began December 9, 1992 and was set up to end November 1, 2012. The City paid a portion of the cost of the project, in the amount of \$11.5 million to the District, in accordance with Ordinance C-30611 of the City. The District paid Annual Rent known as Base Rent, which was an amount equal to the amount of principal and interest next due on the Bonds. The District had the option to purchase from the City on any rental payment date for the purchase price the property as designated in the Annual Lease Agreement.

The Annual Lease Agreement provided for the City to lease to the District certain property for use as an Arena as in the Financing Lease. The term of the Lease began December 9, 1992 and ended on November 2, 1993. The District was granted an option to renew the Annual Lease for successive 12-month periods after the initial term of the lease, provided that the Lease shall expire no later than November 2, 2003. The Annual Lease will terminate upon the District's purchase of the property pursuant to Article X of the Financing Agreement.

The 1995 Financing Lease Agreement provided for the City to lease to the Spokane Public Facilities District Parcels 1, 2, and 4A as described in Exhibit "A" of the agreement for the purpose of providing event parking at the Arena. The lease started on June 5, 1995 and was set up to end on November 1, 2018, unless earlier terminated in accordance with the terms of the agreement. The District was granted an option to purchase from the City the Option Property, Parcel 2, as described in the Exhibit "B" of the Lease Agreement on any Rental Payment Date for the purchase price of \$1.00 by giving written notice in accordance with the agreement. Rental Payment Dates were May 2 and November 2 of each year upon which Annual Rent is due. Annual Rent was the sum of the Base Rent and Additional Rent as described in the agreement that was due on each Rental Payment Date. Upon the District's purchase of the Option Property the 1995 Agreement would terminate.

#### Prepayment of Annual Lease Agreement and Redemption of 1992 Revenue Bonds and 1995 Revenue Bonds

In October 2001, the Spokane Public Facilities District paid, redeemed and retired the Financing and Annual Lease Revenue Refunding Bonds of 1992 by prepaying the 1992 Arena Financing Leases by the sale of refunding bonds. The proceeds of the new bonds were placed in an irrevocable trust and the bonds were paid in full on January 1, 2002.

In September 2003, the Spokane Public Facilities District paid, redeemed and retired the Financing and Annual Lease Revenue Refunding Bonds of 1995 by prepaying the 1995 Arena Financing Leases with available cash on hand. The funds were placed in an irrevocable trust and provided for the payment in full of the defeased bonds on January 1, 2005.

### **13. COMMITMENTS AND CONTINGENCIES**

The Department of Labor and Industries made a determination that three 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 Downtown Housing Stabilization Program is a program developed by the financial issues task force of the Downtown Capital Needs Committee. The Stabilization Program is 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.

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 Spokane Public Facilities District 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 will transfer to the PFD an annual operating payment prior to the completion of the new Convention Center project of \$250,000 per year, increasing by 3% each year until the project is complete, but no later than 2006. After the project is complete, 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.

#### 14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information of the enterprise fund operations for the year ended December 31, 2004 are as follows:

	WATER	SEWER	SOLID WASTE	OTHER NONMAJOR FUNDS	TOTAL
<b>CONDENSED STATEMENT OF NET ASSETS:</b>					
Assets:					
Current assets	\$ 37,992,500	\$ 54,188,516	\$ 51,607,487	\$ 2,981,832	\$ 146,770,335
Restricted assets	853,946	-	28,124,150	624,808	29,602,904
Capital assets	101,992,705	190,106,846	107,517,147	14,876,089	414,492,787
Other noncurrent assets	155,228	6,073,846	19,427,940	-	25,657,014
Total assets	<u>140,994,379</u>	<u>250,369,208</u>	<u>206,676,724</u>	<u>18,482,729</u>	<u>616,523,040</u>
Liabilities:					
Interfund payables	438,986	770,099	1,117,341	86,840	2,413,266
Other current liabilities	2,479,546	2,718,999	17,220,106	710,465	23,129,116
Noncurrent liabilities	7,588,884	6,949,076	85,338,206	4,041,707	103,917,873
Total liabilities	<u>10,507,416</u>	<u>10,438,174</u>	<u>103,675,653</u>	<u>4,839,012</u>	<u>129,460,255</u>
Net assets:					
Invested in capital assets, net of related debt	94,409,313	185,555,532	24,854,542	11,495,844	316,315,231
Restricted	-	-	15,118,866	63,715	15,182,581
Unrestricted	36,077,650	54,375,502	63,027,663	2,084,160	155,564,975
Total net assets	<u>\$ 130,486,963</u>	<u>\$ 239,931,034</u>	<u>\$ 103,001,071</u>	<u>\$ 13,643,719</u>	<u>\$ 487,062,787</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>					
Operating revenues	\$ 25,314,526	\$ 38,687,181	\$ 66,585,329	\$ 6,512,108	\$ 137,099,144
Depreciation expense	2,776,907	6,288,834	7,958,034	372,290	17,396,065
Other operating expenses	20,694,329	23,955,463	44,157,256	5,854,212	94,661,260
Operating income (loss)	<u>1,843,290</u>	<u>8,442,884</u>	<u>14,470,039</u>	<u>285,606</u>	<u>25,041,819</u>
Nonoperating revenues (expenses):					
Investment income	545,263	775,915	897,087	32,012	2,250,277
Interest expense	(159,212)	(50,845)	(4,827,465)	(310,670)	(5,348,192)
Other nonoperating revenues (expenses)	690,265	(750,034)	(2,175,025)	(92,603)	(2,327,397)
Capital contributions	872,209	7,574,735	-	-	8,446,944
Transfers in (out)	<u>(30,694)</u>	<u>(140,007)</u>	<u>(781,909)</u>	<u>1,070,756</u>	<u>118,146</u>
Change in net assets	3,761,121	15,852,648	7,582,727	985,101	28,181,597
Prior period adjustment	(132,584)	-	816,150	-	683,566
Beginning net assets	<u>126,858,426</u>	<u>224,078,386</u>	<u>94,602,194</u>	<u>12,658,617</u>	<u>458,197,623</u>
Ending net assets	<u>\$ 130,486,963</u>	<u>\$ 239,931,034</u>	<u>\$ 103,001,071</u>	<u>\$ 13,643,718</u>	<u>\$ 487,062,786</u>
<b>CONDENSED STATEMENT OF CASH FLOWS:</b>					
Net cash provided (used) by:					
Operating activities	\$ 5,277,588	\$ 15,264,662	\$ 21,260,535	\$ 875,174	\$ 42,677,959
Noncapital financing activities	-	-	(168,397)	1,003,247	834,850
Capital and related financing activities	(3,408,413)	(21,599,082)	(22,847,077)	(754,141)	(48,608,713)
Investing activities	<u>(2,144,148)</u>	<u>5,057,152</u>	<u>(304,042)</u>	<u>(483,258)</u>	<u>2,125,704</u>
Net increase (decrease)	(274,973)	(1,277,268)	(2,058,981)	641,022	(2,970,200)
Beginning cash and cash equivalents	758,256	2,487,044	4,026,598	348,657	7,620,555
Ending cash and cash equivalents	<u>\$ 483,283</u>	<u>\$ 1,209,776</u>	<u>\$ 1,967,617</u>	<u>\$ 989,679</u>	<u>\$ 4,650,355</u>

## 15. PRIOR PERIOD ADJUSTMENTS

The Statement of Activities reports a prior period adjustment for governmental activities of \$19,788. This amount consists of amounts related to:

Financial Statement Presentation:	
Government-wide Statements	\$ 45,946
Fund Statements:	
Internal Service Funds	(26,162)
Total Prior Period Adjustment	\$ 19,788

The net adjustment to net assets of governmental activities of \$45,946 reflects capital assets not previously recorded on the Statement of Net Assets.

The internal service funds report a net prior period adjustment of \$ 26,162 to correct omissions from prior years for certain fixed equipment depreciation.

The enterprise (business-type) funds report a decrease to net assets for prior period adjustments of \$683,566. The Water Fund shows a decrease to net assets of \$132,584 for adjustments to capital assets related to prior years. The Solid Waste Fund reports a prior period increase to net assets of \$816,151, resulting from an accounts payable overstatement of \$116,755 and the understatement in prior years revenues of \$699,396.

## 16. SUBSEQUENT EVENTS

### A. New Debt

On August 3, 2005, the City issued \$8,880,000 Unlimited Tax General Obligation Refunding Bonds Series 2005 to refinance a portion of the Unlimited Tax General Obligations Bonds Series 1999A. These bonds mature December 1, 2014 and have interest rates between 3% and 4%.

On August 3, 2005 the City issued \$5,720,000 Limited Tax Obligation and Refunding Bonds, Series 2005A. Proceeds of \$2,865,000 of this issuance were used to refund a portion of outstanding 1999 Limited Tax General Obligation Bonds. These bonds also financed the replacement of the gondola in Riverfront Park in the amount of \$2,000,000 and \$855,000 for the financing of the Iron Bridge project. The Iron Bridge project is an increment area within the boundaries of the City, authorized by chapter 39.89 Revised Code of Washington, for commercial improvements in east central Spokane, north of Trent Avenue and east of the Spokane River. These bonds mature December 1, 2030 and have an interest rate of 5%.

On August 3, 2005 the City issued \$25,625,000 Limited Tax General Obligation and Refunding Bonds, Series 2005B. Proceeds of these bonds were used to pay down the Bond Anticipation Note related to River Park Square. These bonds mature December 1, 2027 and have interest rates between 4.34% and 5.34%. These bonds are federally taxable.



## 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.

Other Significant Litigation:

### River Park Square

In 2004 and 2005, the City resolved virtually all of the litigation arising out of its financial support for the redevelopment of River Park Square. River Park Square is a private, for-profit development located in the City's central business district. Beginning in late 1994 or early 1995, its Developer sought certain financial support for the River Park Square project from the City in light of the economic development contribution the project was expected to make to the downtown core.

The City's involvement included a contingent pledge to loan money to the public corporation ("the Authority") that would operate the privately-owned parking garage adjoining the project ("the Garage"). Garage revenues fell substantially short of projections, and consultants engaged to review Garage operations in the spring of 2000 projected that loans required for Garage operations would be in the millions of dollars each year, and that loans made by the City to the Authority were unlikely to be repaid. While the City made two loans to the Authority in late 1999 and early 2000, totaling \$280,000, those loans were not repaid. In April 2000, the City requested further assurances from the Authority, including any recasting of legal interests that might make repayment feasible. When the Authority was unable to offer any assurances or proposals, the City declined to make further loans.

Disputes between the City and other parties over its obligations led to a variety of lawsuits, including some initiated by the City. The disputes generally concerned legal responsibility for the substantial shortfalls of Parking Revenues from those projected for the Garage, as well as the City's loan obligation. The largest litigation was filed in federal court by holders of the bonds issued to finance the Garage, seeking the return of their invested funds from the bond issuer as well as from the City and all other participants in the municipal financing. In addition to the lawsuits arising from the financial failure of the Garage, the Internal Revenue Service issued an adverse determination challenging the tax-exempt status of the bonds, leading to a tax appeal by the bond issuer.

In April 2004, the City, the financial feasibility consultant for the Garage financing and underwriter's counsel reached a settlement with the bondholders under which their bonds were retired. The settlement was structured in a manner that eliminated the City's obligation to loan funds for Garage operations. As a result of its substantial contribution toward that settlement, the City obtained contribution rights against other, non-settling financing participants. In November and December 2004, the City settled its contribution claims against the project Developer, the Developer's manager, the issuer and the issuer's counsel. In March 2005, the federal court dismissed the City's claims against the underwriter of the bonds on grounds that the City had already been made whole, by earlier settlements, for the only claim it could assert against the underwriter. In April 2005, the City proceeded to trial in the federal litigation against the sole remaining defendants, its bond lawyers. The City's claims against its lawyers were settled during trial.

The City ultimately received settlements from other parties valued by the federal court at \$14.1 million. It financed the balance of its outstanding settlement and associated costs through \$25.6 million in Limited Tax General Obligation bonds issued in August 2005.

With one exception, River Park Square-related lawsuits pending in state courts were settled along with settlement of the federal claims. The sole remaining state court action involves approximately \$1.4 million in real estate taxes assessed on the Garage by the County of Spokane. The City contends that the Garage was exempt from real estate taxation. The tax dispute is expected to be resolved by motion practice or trial within the next nine months. The City anticipates litigation to recover a \$1 million insurance bad faith claim assigned to it in connection with its settlement of the federal litigation. The City may also pursue appeals and other litigation consistent with its best financial interests.



## Required Supplementary Information

**CITY OF SPOKANE EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Funded Ratio	Unfunded AAL (b) - (a)	Covered Payroll	AAL as a Percentage of Covered Payroll
12/31/04	\$ 209,217,925	\$ 240,260,424	87.08%	\$ 30,042,499	\$ 64,252,485	48.31%
12/31/03	195,723,271	227,662,674	85.97%	31,939,403	61,380,769	52.03%
12/31/02	170,359,975	206,435,061	82.52%	36,075,086	56,454,409	63.90%
12/31/01	190,150,661	197,656,627	96.20%	7,505,966	59,292,582	12.66%
12/31/00	194,488,937	187,644,219	103.65%	(6,844,718)	55,420,648	-12.35%
12/31/99	186,394,015	174,562,092	106.78%	(11,831,923)	54,142,268	-21.85%

**CITY OF SPOKANE EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year	Annual Required Contribution	Percentage Covered
2004	\$ 5,867,117	70.48%
2003	4,547,346	89.84%
2002	3,569,284	103.44%
2001	3,859,885	102.69%
2000	2,747,528	137.28%
1999	3,053,294	119.33%

**CITY OF SPOKANE FIREFIGHTERS' PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ending	Covered Employee Payroll	Actual Employer Contributions	Actual Required Contribution (ARC)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	N/A	\$ 918,131	\$ -	\$ -	100.00%	\$ -
12/31/03	N/A	2,164,556	2,164,556	2,164,556	100.00%	-
12/31/02	N/A	2,222,220	2,222,220	2,222,220	100.00%	-
12/31/01	N/A	2,154,590	2,154,590	2,154,590	100.0%	-
12/31/00	N/A	2,377,355	2,377,355	2,377,355	100.0%	-
12/31/99	N/A	2,233,246	2,095,222	2,095,208	106.6%	-

**CITY OF SPOKANE FIREFIGHTERS' PENSION FUND  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Funded Ratio	Unfunded AAL (b) - (a)	Covered Payroll	AAL as a Percentage of Covered Payroll
12/31/04	\$ 12,960,492	\$ 15,589,980	83.10%	\$ 2,629,488	N/A	N/A
12/31/03	13,079,532	10,493,534	124.60%	(2,585,998)	N/A	N/A
12/31/02	11,962,919	23,998,558	49.80%	12,035,639	N/A	N/A
12/31/01	10,164,764	26,054,295	39.00%	15,889,531	N/A	N/A
12/31/00	8,904,645	31,222,610	28.50%	22,317,965	N/A	N/A
12/31/99	7,160,160	30,516,255	23.50%	23,356,095	N/A	N/A

**CITY OF SPOKANE POLICE PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ending	Covered Employee Payroll	Actual Employer Contributions	Actual Required Contribution (ARC)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	N/A	\$ 1,524,239	\$ 1,524,239	\$ 1,532,899	100.20%	\$ 3,330,992
12/31/03	N/A	965,202	1,140,018	1,139,696	84.69%	3,331,332
12/31/02	N/A	1,017,775	1,376,611	1,376,325	73.95%	3,156,838
12/31/01	N/A	1,211,026	1,651,319	1,651,078	73.35%	2,798,288
12/31/00	N/A	1,258,032	1,743,009	1,743,033	72.93%	2,358,236
12/31/99	N/A	1,107,908	1,738,326	1,738,198	63.74%	1,891,235

**CITY OF SPOKANE POLICE PENSION FUND  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Funded Ratio	Unfunded AAL (b) - (a)	Covered Payroll	AAL as a Percentage of Covered Payroll
12/31/04	\$ -	\$ 6,537,860	0.00%	\$ 6,537,860	N/A	N/A
12/31/03	-	7,173,597	0.00%	7,173,597	N/A	N/A
12/31/02	-	16,239,148	0.00%	16,239,148	N/A	N/A
12/31/01	-	19,615,640	0.00%	19,615,640	N/A	N/A
12/31/00	-	23,515,560	0.00%	23,515,560	N/A	N/A
12/31/99	-	24,812,140	0.00%	24,812,140	N/A	N/A

**CITY OF SPOKANE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
PENSION PLANS  
DECEMBER 31, 2004**

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.