



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Kennewick

Benton County

For the period January 1, 2014 through December 31, 2014

Published August 13, 2015

Report No. 1014780





Washington State Auditor's Office

August 13, 2015

Mayor and City Council
City of Kennewick
Kennewick, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

City of Kennewick Benton County January 1, 2014 through December 31, 2014

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

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds
14.239	HOME Investment Partnerships Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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

**City of Kennewick
Benton County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Kennewick
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2015. The prior year comparative information has been derived from the City's 2013 basic financial statements, on which we issued our report dated June 30, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Kennewick
Benton County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Kennewick
Kennewick, Washington

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

We have audited the compliance of the City of Kennewick, Benton County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kennewick Benton County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Kennewick
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year end December 31, 2013, from which such partial information was derived. We have previously audited the City's 2013 financial statements we expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, aggregate discretely component units, each major fund and aggregate remaining fund in our report dated June 30, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 34, budgetary comparison information on pages 95 through 97, pension trust fund information on page 98, and information on postemployment benefits other than pensions on page 99 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015 on our consideration of the City's internal control over financial reporting and on

our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 26, 2015

FINANCIAL SECTION

**City of Kennewick
Benton County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position – Governmental Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2014

Statement of Net Position – Proprietary Funds – 2014

Reconciliation of the Statement of Net Position – Proprietary Funds to the Government-
Wide Statement of Net Position – Business-Type Activities – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2014

Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Net
Position of Proprietary Funds to the Statement of Activities – Business-Type
Activities – 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Fiduciary Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to the Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
– General Fund – 2014

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget to Actual-
Community Development Fund – 2014

Firemen's Pension Trust Fund – 2014

Other Postemployment Benefits (LEOFF 1 Retiree Medical) – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Expenditures of Federal Awards – 2014

Notes to Expenditures of Federal Awards Schedule – 2014

Management's Discussion and Analysis

As management of the City of Kennewick, we offer readers of the City of Kennewick's financial statements this narrative overview and analysis of the financial activities of the City of Kennewick for the year ended December 31, 2014. The information presented within this overview should be considered in conjunction with the City's financial statements immediately following this analysis.

Financial Highlights

- ◆ The assets of the City of Kennewick exceeded its liabilities at December 31, 2014 by \$347,403,921 (*net position*). Of this amount, \$20,054,069 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors. However, although not formally restricted, a portion of unrestricted net position as of December 31, 2014 has been identified by City Council for projects that were in progress or planned at the end of 2014, but will not be completed until 2015 or beyond.
- ◆ The City's total net position increased by \$11,482,494 in 2014. A significant portion of this increase is attributable to capital grants and contributions received from developers in the form of donated infrastructure related to residential and commercial development and state and federal grants received for street reconstruction and improvement projects and water and sewer infrastructure improvements.
- ◆ Expenses were \$36,660,962 greater than the program revenues generated for governmental activities. Program revenues exceeded expenses by \$3,472,004 for business-type activities.
- ◆ As of December 31, 2014, the City of Kennewick's governmental funds reported combined ending fund balances of \$13,662,565, an increase of \$654,776 in comparison with the prior year. Approximately 14 percent of this total amount, \$1,863,110, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council's intent for a specific purpose (\$5,600,659), committed for specific purposes pursuant to constraints imposed by a formal action of the City's highest level of decision making authority (\$5,624,640), or restricted externally for a specific purpose (\$574,156).
- ◆ As of December 31, 2014, unassigned fund balance for the general fund was \$2,423,684, or 5.2 percent of total reported general fund expenditures and 5 percent of total operating fund expenditures (general and street fund), which met the City's budgetary policy of maintaining fund balance equal to 5 percent of annual operating expenditures for these funds. In addition, committed fund balance reported in the City's general fund was \$2,715,500 as of December 31, 2014. This fund balance is committed through council budget policy to respond to potential unforeseen adversities or major projects that were not anticipated when the City's budget was prepared. Together these fund balances represent approximately 10.6 percent of actual reported operating fund expenditures for 2014.
- ◆ The City of Kennewick's total net capital assets increased by \$12,695,964 during the year ended December 31, 2014. This increase reflects the investment made in the City's infrastructure including parks, streets and water and sewer infrastructure. These capital projects were funded utilizing a combination of private and public resources.
- ◆ The City of Kennewick's total outstanding debt decreased by \$559,110 during the year ended December 31, 2014. This net change reflects the addition of a \$345,980 capital lease for replacement of computer hardware within governmental activities and state loans totaling \$4,243,962 for water and stormwater infrastructure projects within business-type activities, net of scheduled principal payments on the City's outstanding bonds and notes payable.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kennewick's basic financial statements and as a tool to assist users in their interpretation of them. The City of Kennewick's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City of Kennewick's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Analyzing net position over a period of time may be a useful indicator of whether the financial position of the City of Kennewick is improving or deteriorating.

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

The ***fund financial statements*** present financial information about the City of Kennewick in a more traditional manner. The City of Kennewick, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on a near-term view of the City's financial resources available for spending. The modified accrual basis of accounting is utilized in preparation of these statements, which may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the information presented for governmental activities in the government-wide financial statements. This comparison provides readers with a better understanding of the long-term impacts of near-term financing decisions. Both the governmental balance sheet and governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kennewick maintains fourteen individual governmental funds for financial reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund, community development fund, capital improvement fund and urban arterial fund, all of which have been determined to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation.

The City of Kennewick maintains two different types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Kennewick uses six enterprise funds to account for its water and sewer utility, ambulance service, building inspection function, coliseum facility operations, stormwater utility and golf course operations. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City. The City of Kennewick uses three internal service funds to account for the management, maintenance, and repair of city-owned equipment, the purchasing, warehousing, and disbursement of office and maintenance supplies for all departments within the City, and for insurance programs and other risk management services to all City departments. Because all three of these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund, medical services fund and coliseum fund, all of which are considered to be major funds. Data from the other enterprise funds is combined into a single, aggregated column. In addition, all three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Kennewick's own programs. The method of accounting utilized for these funds is similar in nature to that of the proprietary funds.

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

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning the City of Kennewick. Information included as required supplementary information includes the City of Kennewick's progress in funding its obligation to provide pension benefits to members of its firemen's pension fund and other post-employment benefits (OPEB) in the form of healthcare to its Fire Pension Act and Law Enforcement Officers and Firefighters (LEOFF) retirement plan 1 retirees. Additionally, a budgetary comparison for the general fund and major special revenue funds has been provided in this section to demonstrate compliance with their respective budgets. The combining statements referred to earlier in connection with nonmajor governmental and enterprise funds and individual internal service funds are presented immediately following the required supplementary information described in the preceding paragraph.

Government-wide Financial Analysis

As noted earlier, changes in net position may serve over time as a useful indicator of a government's financial position. As of December 31, 2014, the City of Kennewick's assets exceeded liabilities by \$347,403,921. The following is a condensed version of the city's statement of net position for the years ended December 31, 2014 and 2013, respectively.

City of Kennewick
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 35,668,799	\$ 33,505,239	\$ 1,045,756	\$ 1,270,287	\$ 36,714,555	\$ 34,775,526
Capital assets	207,033,391	201,852,443	164,155,873	156,640,857	371,189,264	358,493,300
Other noncurrent assets	4,923,795	5,958,555	2,116,394	2,499,630	7,040,189	8,458,185
Total assets	<u>247,625,985</u>	<u>241,316,237</u>	<u>167,318,023</u>	<u>160,410,774</u>	<u>414,944,008</u>	<u>401,727,011</u>
Deferred Outflows of Resources						
Deferred charge on refunding	403,391	464,533	-	-	403,391	464,533
Total deferred outflows of resources	<u>403,391</u>	<u>464,533</u>	<u>-</u>	<u>-</u>	<u>403,391</u>	<u>464,533</u>
Total assets and deferred outflows of resources	<u>\$ 248,029,376</u>	<u>\$ 241,780,770</u>	<u>\$ 167,318,023</u>	<u>\$ 160,410,774</u>	<u>\$ 415,347,399</u>	<u>\$ 402,191,544</u>
Liabilities						
Current liabilities	\$ 7,818,805	\$ 7,486,220	\$ 5,319,378	\$ 5,120,729	\$ 13,138,183	\$ 12,606,949
Noncurrent liabilities	29,608,540	30,569,354	25,196,755	23,093,814	54,805,295	53,663,168
Total liabilities	<u>37,427,345</u>	<u>38,055,574</u>	<u>30,516,133</u>	<u>28,214,543</u>	<u>67,943,478</u>	<u>66,270,117</u>
Net Position						
Net investment in capital assets	179,385,930	172,104,152	137,560,465	131,571,448	316,946,395	303,675,600
Restricted	8,287,063	7,268,509	2,116,394	1,897,039	10,403,457	9,165,548
Unrestricted (deficit)	22,929,038	24,352,535	(2,874,969)	(1,272,256)	20,054,069	23,080,279
Total net position	<u>210,602,031</u>	<u>203,725,196</u>	<u>136,801,890</u>	<u>132,196,231</u>	<u>347,403,921</u>	<u>335,921,427</u>
Total liabilities and net position	<u>\$ 248,029,376</u>	<u>\$ 241,780,770</u>	<u>\$ 167,318,023</u>	<u>\$ 160,410,774</u>	<u>\$ 415,347,399</u>	<u>\$ 402,191,544</u>

The majority of the City of Kennewick's net position (91 percent) reflects its investment in capital assets, such as land, buildings, improvements, infrastructure and equipment, less any related debt used to acquire those assets that is still outstanding, net of any unspent debt proceeds, which is \$54,242,869. These capital assets are used to provide services to citizens and therefore, it should be noted that these assets are not available for future spending. In addition, it should also be noted that although the City of Kennewick's investment in its capital assets is reported net of related debt, other resources will be drawn upon to repay this debt, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kennewick's net position (3 percent) is subject to external restrictions, including bond covenants and construction requirements, on how they must be used. The remaining balance of unrestricted net position of \$20,054,069 may be used to meet the government's ongoing obligations to citizens and creditors. However, although not formally restricted, a portion of unrestricted net position as of December 31, 2014 has been identified by City Council for future projects and other needs of the City in the future.

As of December 31, 2014, the City of Kennewick was able to report positive balances in all three categories of net position. In addition, governmental activities and business-type activities were also able to report positive balances in all categories, with the exception of unrestricted net position for business-type activities. The overall deficit balance within unrestricted net position for business-type activities was attributable to a deficit in unrestricted net position for the City's coliseum business-type activity, which is the result of the fact that an interfund loan was utilized to finance the acquisition of its coliseum facility and the refurbishment of the facility's marquee sign, rather than external debt. Under general accepted accounting principles, the outstanding balance of these interfund loans, which is \$3,006,545, is not considered capital related debt for purposes of calculating the net position category of net investment in capital assets. Instead, the interfund loans reduce unrestricted net position, despite the fact that the purpose of the loans was to acquire the facility and refurbish the sign.

As mentioned in the financial highlights section of this analysis, the City's net position increased by \$11,482,494 overall for the year ended December 31, 2014. A large portion of this increase was attributable to capital grants and contributions received from developers in the form of donated infrastructure related to residential and commercial development and state and federal grants received for street reconstruction and improvement projects and water and sewer infrastructure improvements.

Governmental activities increased the City of Kennewick's net position by \$6,876,835 during the year ended December 31, 2014, which equated to 60 percent of the overall increase of \$11,482,494 for the government as a whole. Key elements of the current year's increase in net position and changes relative to the prior year follow.

- ◆ Program revenues increased by approximately \$4.1 million overall during 2014, which represented an increase of 23 percent. The largest factor in this overall increase was a significant increase in program revenue from capital grants and contributions within the City's transportation program. Capital grants and contributions increased by just over \$3.4 million in 2014 when compared to 2013, due to an increase in federal and state grant revenue associated with large transportation projects in the City including the extension of Olympia Street from State Route 397 to 27th Street and Steptoe phase 3, which is the final phase of a project that will provide a new roadway from the City's northwestern retail district to its southern area where a significant portion of the City's future growth is expected to occur. In conjunction with these large projects and other growth occurring in Kennewick, the City also experienced an increase in capital contributions from developers in the form of roads and other transportation infrastructure during the year.
- ◆ Tax revenues are the largest source of revenue within governmental activities, making up approximately 66 percent of total revenues. On a full accrual basis, tax revenues increased by 2 percent in 2014 when compared to 2013, which equates to a total increase of approximately \$945,000. The most significant components of this overall increase were a 5 percent increase in property tax revenues and a 3 percent increase in sales tax, which were partially offset by a 4 percent decrease in utility taxes.

The increase in property tax revenue for 2014 was primarily attributable to \$119 million in new construction value that was added to the City's assessed valuation in 2013 for the 2014 tax levy. Additionally, the Kennewick City Council elected to increase the City's base property tax levy by 1 percent for 2014, the maximum allowed under state law.

Sales tax revenue, which is the City's largest single source of tax revenue, increased by 3 percent when compared to 2013. Although the City's sales tax revenue for 2014 was influenced by a number of factors including the sales tax received from the construction of a new hospital in the City's Southridge area, the net increase in sales tax revenue in 2014 compared to 2013 was primarily attributable to moderate growth in its base sales and use tax and a relatively large increase in sales and use tax received from auto dealerships.

Despite moderate increases in revenue from most utility tax sources, overall utility tax revenue decreased by 4 percent in 2014. The overall decline was attributable to a 7 percent reduction in telephone utility tax revenue, which has declined in recent years due to the growing prevalence of non-taxable data services as a component of cellular telephone services, bundling of services by telephone and cable providers that result in reduced charges and taxable revenue for each service, and the trend of consumers eliminating their home phones in favor of utilizing their cellular phones as their primary phone.

City of Kennewick
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 6,691,952	\$ 6,744,290	\$ 27,360,762	\$ 26,506,892	\$ 34,052,714	\$ 33,251,182
Operating grants and contributions	5,265,254	4,857,674	-	-	5,265,254	4,857,674
Capital grants and contributions	9,868,925	6,466,596	3,578,988	3,642,149	13,447,913	10,108,745
General revenues:						
Property taxes	11,844,378	11,327,879	-	-	11,844,378	11,327,879
Sales taxes	17,536,255	16,989,376	-	-	17,536,255	16,989,376
Utility taxes	10,759,476	11,182,612	-	-	10,759,476	11,182,612
Real estate excise tax	1,610,706	1,566,341	-	-	1,610,706	1,566,341
Gambling excise tax	746,328	726,917	-	-	746,328	726,917
Lodging tax	914,197	839,674	-	-	914,197	839,674
Other taxes	423,926	257,892	-	-	423,926	257,892
Gain on sale of capital assets	593,125	569,956	-	-	593,125	569,956
Unrestricted investment earnings	163,436	99,617	79,625	82,119	243,061	181,736
Total revenues	66,417,958	61,628,824	31,019,375	30,231,160	97,437,333	91,859,984
Expenses:						
General government	9,159,699	7,891,898	-	-	9,159,699	7,891,898
Public safety	29,690,920	27,905,749	-	-	29,690,920	27,905,749
Transportation	8,838,502	10,206,856	-	-	8,838,502	10,206,856
Physical environment	469,205	215,621	-	-	469,205	215,621
Economic environment	2,126,169	1,930,526	-	-	2,126,169	1,930,526
Social services	50,310	205,718	-	-	50,310	205,718
Culture and recreation	6,857,438	6,413,809	-	-	6,857,438	6,413,809
Interest on long-term debt	1,294,850	1,337,902	-	-	1,294,850	1,337,902
Water and Sewer	-	-	16,139,077	15,205,134	16,139,077	15,205,134
Medical Services	-	-	4,423,588	4,352,832	4,423,588	4,352,832
Building Safety	-	-	1,248,757	1,106,334	1,248,757	1,106,334
Stormwater	-	-	1,547,131	1,409,865	1,547,131	1,409,865
Columbia Park Golf Course	-	-	302,752	308,301	302,752	308,301
Coliseum	-	-	3,806,441	3,799,767	3,806,441	3,799,767
Total expenses	58,487,093	56,108,079	27,467,746	26,182,233	85,954,839	82,290,312
Increase in net position before transfers	7,930,865	5,520,745	3,551,629	4,048,927	11,482,494	9,569,672
Transfers	(1,054,030)	(1,120,661)	1,054,030	1,120,661	-	-
Increase (decrease) in net position	6,876,835	4,400,084	4,605,659	5,169,588	11,482,494	9,569,672
Net position - beginning	203,725,196	199,325,112	132,196,231	127,026,643	335,921,427	326,351,755
Net position - ending	\$ 210,602,031	\$ 203,725,196	\$ 136,801,890	\$ 132,196,231	\$ 347,403,921	\$ 335,921,427

- ◆ On an accrual basis, expenses within governmental activities increased by approximately \$2.4 million in 2014 relative to 2013, which equates to an increase of approximately 4 percent. One of the larger factors in this increase was the retirement of a capital asset with a remaining book value of approximately \$815,500 within the general government function during the year. However, the largest factor in the increase to expenses within governmental activities for 2014 was an increase in personnel expenses across all functions. The following are some of the key factors in the increase in personnel expenses for 2014.

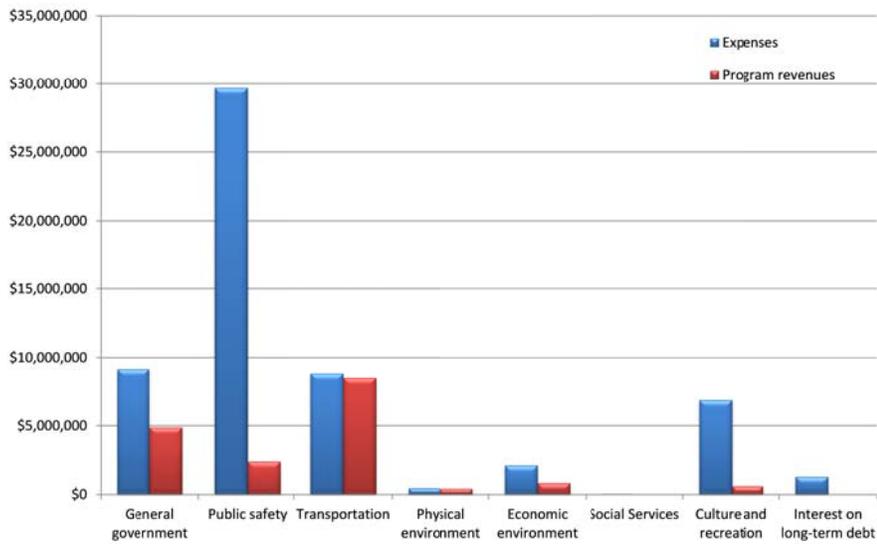
Expenses for salaries and wages increased by slightly less than 4 percent in 2014, or about \$886,000. This change was attributable to negotiated pay increases for the City's union personnel and pay for performance awards to its non-represented employees.

Expenses for personnel benefits increased by 2 percent in 2014, or approximately \$167,000. This moderate increase was attributable to two main factors. First, the City's medical insurance premiums, which constitute more than half of the City's overall benefit expenses, were unchanged in 2014. Additionally, expenses within governmental activities for retirement contributions for the State of Washington's Public Employee Retirement System (PERS) II and III retirement plans increased in

2014 when compared to 2013 after contribution rates were increased in July of 2013 from 7.21 percent to 9.19 percent and then again in September of 2013 to 9.21 percent to address the unfunded liability of the state's PERS I plan. Although retirement contribution rates remained at this level for 2014, expenses reflect a full year at the higher rate rather than just a half year as in 2013.

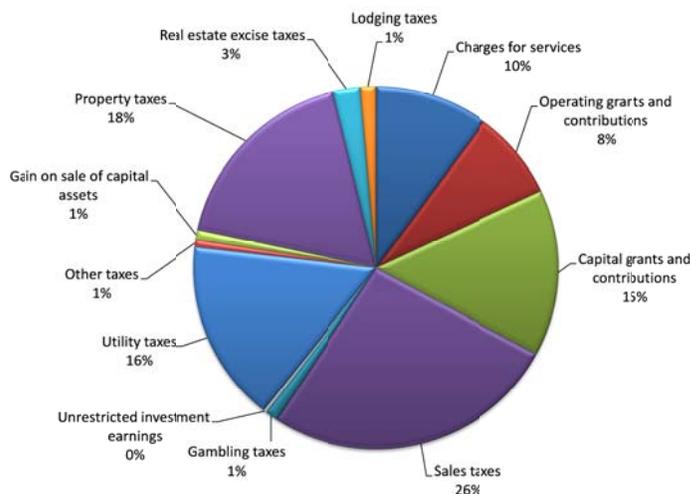
The following chart illustrates the surplus or net subsidy required for different governmental programs. The illustration clearly shows that all governmental programs were reliant on tax revenues to some degree in 2014 to cover the shortfall of program revenues available to fund the costs of providing the service.

Expenses and Program Revenues - Governmental Activities

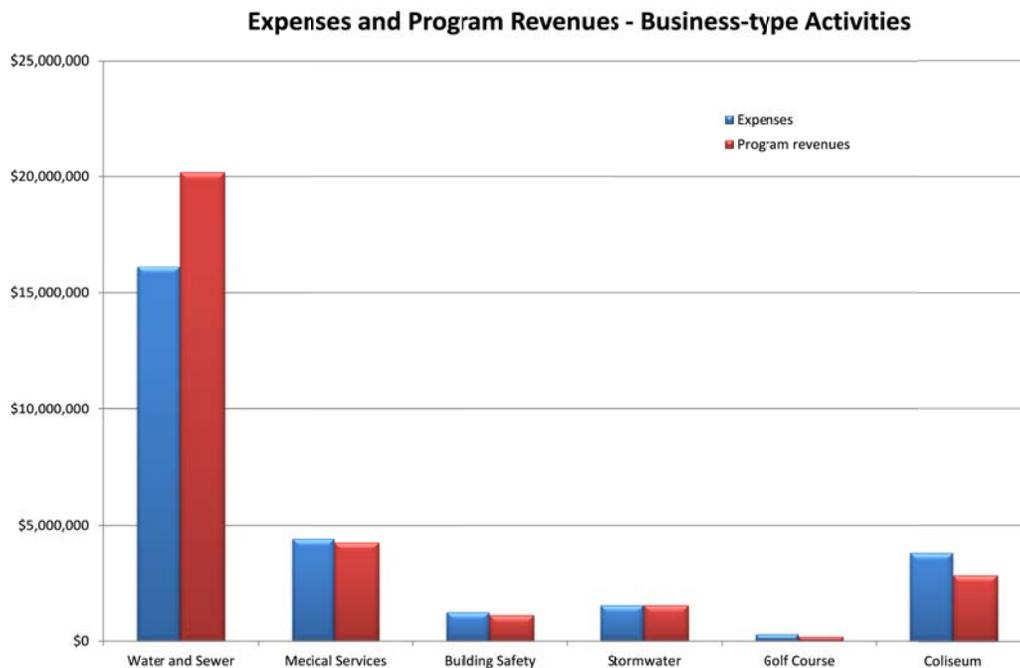


The following graph illustrates different components of the City of Kennewick's revenues from governmental activities. As the graph illustrates, taxes are the major revenue source, making up approximately 66 percent of the total revenues that support governmental activities. Program revenues, which include charges for services provided as well as operating and capital contributions from external parties, are also a large source of revenue used to support governmental activities, making up approximately 33 percent of total revenues.

Revenue by Source - Governmental Activities



Business-type activities contributed to the City of Kennewick’s net position by \$4,605,659 for the period ended December 31, 2014, which equated to 40 percent of the overall increase of \$11,482,494 for the government as a whole. The following graph illustrates the excess of program revenues over expenses or expenses in excess of program revenues for each of the City’s business-type activities. Key elements of the current year increase in net position and changes relative to the prior year follow.



- ◆ The largest component of revenues for business-type activities, charges for services, experienced an increase of 3 percent in 2014. The water and sewer business-type activity, which contributes most significantly to this revenue category when looking at business-type activities as a whole, experienced an overall increase of approximately 4 percent in 2014, which was attributable to a rate increase of 0.8 percent enacted for the year based on the annual change to the consumer price index pursuant to the City’s municipal code and a moderate increase in water and sewer customers and overall consumption during the year.

Within the medical services business-type activity, revenue derived from charges for services decreased by 5 percent overall during 2014, despite a 2 percent increase in the number of billable ambulance transports completed during the year and a minor increase in revenue derived from the City’s monthly ambulance charge that is assessed to all residential, multi-family and commercial units in the City. The primary factor in this overall decline was a change to the composition of ambulance transports billed during the year between advanced life support (ALS) and basic life support (BLS) billing categories. Historically, the majority of the City’s transports have been billed as ALS transports, which are reimbursed at a much higher rate by Medicare and Medicaid than BLS transports. Due to a change in the interpretation of Medicare and Medicaid regulations, a much greater number of the City’s transports were billed under the BLS billing category in 2014.

Charges for services in the building safety business-type activity increased by 45 percent in 2014 as a result of a 3 percent increase in the number of building permits issued in 2014 coupled with a 43 percent increase in the valuation of those permits. Although there was moderate growth in all building permit types during the year, the primary factor in this revenue growth was a significant permit issued for a new medical office building located adjacent to a new hospital in the southern area of the City known as Southridge.

Revenue from charges for services in the City's stormwater business-type activity increased by 6 percent in 2014, which was attributable to a rate increase of 0.8 percent enacted for the year based on the annual change to the consumer price index pursuant to the City's municipal code and an increase in the number of residential, multi-family and commercial units that are assessed the monthly stormwater charge within the City.

Charges for services for the City's golf course business-type activity increased by 4 percent in 2014, despite a 3 percent reduction in the number of rounds played at the course during the year. However, although the number of rounds played at the course decreased in 2014, revenue from greens fees increased due to modifications to the course's fee schedule, as did other ancillary revenues generated at the course such as food and beverage sales.

Finally, revenues generated from charges for services decreased by 5 percent within the coliseum business-type activity in 2014, which was largely attributable to the loss of facility rental charges and other ancillary revenue due to a reduction in the number of events held at the facilities, including fewer play-off games for the hockey team that is one of the anchor tenants for the facilities.

- ◆ Capital grants and contributions for business-type activities decreased in 2014 by approximately 2 percent, or \$63,000. The water and sewer and stormwater business-type activity accounts for the majority of capital grants and contributions revenue within the City's business-type activities as a result of developer contributions in the form of water and sewer infrastructure associated with new commercial and residential development.
- ◆ Business-type expenses increased by approximately \$1.3 million overall in 2014 when compared to 2013, which equates to an increase of 5 percent.

Expenses for the City's water and sewer business-type activity increased by approximately \$934,000 in 2014, which equated to an increase of 6 percent. This change was primarily attributable to increases in maintenance and operating costs of the activity including personnel and other variable costs associated with the production of potable water.

Expenses for the medical services business-type activity increased during 2014 by approximately \$71,000, or 2 percent. The primary factor in this overall change was one-time expenses that were incurred in 2013 for defibrillators and information technology (IT) purchases. Without these one-time expenses factored into the comparison, expenses in 2014 would have increased by closer to 4 percent, which is attributable to moderate increases in personnel costs and inflationary increases in the cost of medical supplies.

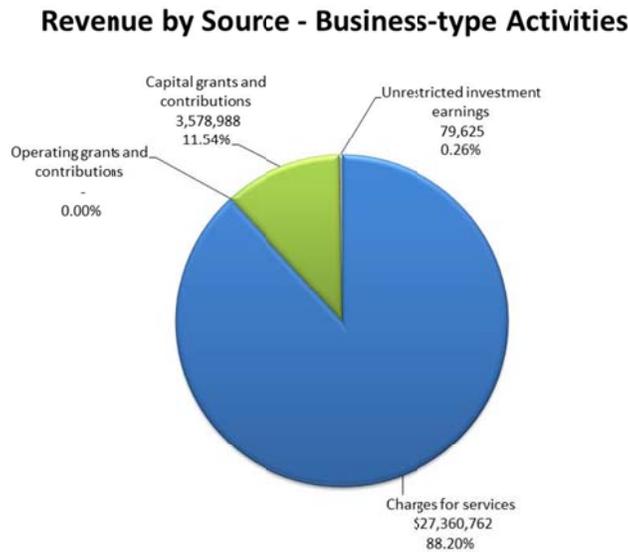
Expenses for the building safety business-type activity increased by approximately \$142,000, or 13 percent, in 2014. This change was partially attributable to an increase in personnel costs for the activity for the year including salaries, medical benefits and retirement costs. Additionally, a portion of the increase was attributable to costs incurred for the use of contract inspectors that were required to assist full-time staff with inspections associated with several significant projects that were underway during the year.

Expenses of the stormwater business-type activity increased by approximately \$137,000, or 10 percent, in 2014. This overall change was primarily attributable to increases in maintenance and operating costs of the activity, including personnel expenses and other expenses associated with the City's compliance with its State stormwater capacity permit.

Expenses of the golf course business-type activity decreased by approximately \$5,000, or 2 percent, in 2015. This overall change was attributable to moderate decreases in operating and marketing expenses for the course.

Lastly, expenses for the coliseum business-type activity increased by approximately \$7,000, or less than 1 percent, during 2014. This modest increase was primarily the result of an increase in depreciation expense in 2014 associated with new capital assets and improvements made at the coliseum facilities in prior years. Other than depreciation, expenses decreased during 2014 as a result of cost savings measures and reductions implemented in an effort to offset a reduction in revenue generated from events at the facility.

The following graph provides an illustration of the different components of the City of Kennewick’s revenues generated from business-type activities. Charges for services, which include items such as charges for water and sewer services and ambulance services provided, are by far the largest source of revenues for business-type activities, making up 88 percent of total revenues.



Financial Analysis of the Government’s Funds

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

Governmental funds focus on providing information on the City of Kennewick’s near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City’s net resources available for spending.

As of December 31, 2014, the City of Kennewick’s governmental funds reported combined ending fund balances of \$13,662,565, an increase of \$654,776 in comparison with the prior year. Approximately 14 percent of this total amount, \$1,863,110, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council’s intent for a specific purpose (\$5,600,659), committed for specific purposes pursuant to constraints imposed by a formal action of the City’s highest level of decision making authority (\$5,624,640), or restricted externally for a specific purpose (\$574,156).

The general fund is the chief operating fund of the City of Kennewick. As of December 31, 2014, unassigned fund balance in the general fund was \$2,423,684. A common measure of the general fund's liquidity is to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 5.2 percent of total general fund expenditures for the year ended December 31, 2014, as compared to 6.3 percent for the year ended December 31, 2013. It should be noted that the City also maintains a cash reserve for unanticipated changes in revenues and expenditures, which is reported as committed fund balance in the general fund and was increased by approximately \$40,000 to \$2.72 million in 2014 based on a Kennewick City Council budget policy to increase the reserve each year by the annual change in the consumer price index.

The total fund balances reported for the City of Kennewick's general fund decreased by \$427,743 during 2014. Key factors in the change are as follows:

- ◆ Tax revenues are by far the largest funding source for the City of Kennewick's general fund, making up approximately 75 percent of the fund's total sources of revenue in 2014. In 2014, tax revenues reported in the general fund increased by approximately 2 percent overall when compared to 2013. This overall increase was attributable to increases in reported revenue from property, sales and gambling taxes, which were partially offset by a decrease in revenue reported in the general fund from utility taxes.

Property taxes allocated to the general fund increased by roughly 3 percent in 2014, which was primarily attributable to growth that occurred in the City during 2013 and increased the tax rolls for 2014. As explained in greater detail earlier in this report within the discussion of the statement of activities for governmental activities, the City added \$119 million to its assessed value for the 2014 levy from new construction. Additionally, the Kennewick City Council elected to increase the City's base property tax levy by 1 percent for 2014, the maximum allowed under state law. It should be noted that a portion of the City's property tax revenue is allocated to its street fund. In total, property tax revenue for both the general and street fund increased by approximately 4 percent.

Sales and use tax revenues reported in the general fund increased by 4 percent in 2014 overall. The City's general fund receives all of the regular and criminal justice sales and use tax received by the City, as well as a portion of the City's optional sales and use tax. Citywide, regular and optional sales and use tax revenue increased by 3 percent in 2014. Although the City's sales tax revenue results for 2014 were influenced by a number of factors including the sales tax received from the construction of a new hospital in the City's Southridge area, the primary factor responsible for the net increase in sales tax revenue for the year was the growth that occurred in the City's base sales and use tax.

Gambling tax revenues increased by 3 percent in 2014 after declining significantly in 2013 as a result of the closure of one of the larger casinos located in Kennewick in the second half of 2012 and the impact this closure had on taxable gambling activity in the City for a full year in 2013.

Utility tax revenues decreased by less than 1 percent overall in 2014 when measured on a modified accrual basis. The City receives utility taxes from natural gas, garbage collection, cable television, telephone, electric, ambulance, stormwater and water/sewer services. In 2014, the City experienced increases from each of these sources, with the exception of telephone and natural gas utility tax.

Utility tax revenue received from the sale of electricity, which is the City's largest source of utility tax, increased by 4 percent in 2014, based primarily on increases in consumption. The public electric utility operating in Kennewick has not implemented a rate change since 2012.

Utility tax generated from cable television services also increased by 4 percent in 2014, primarily as a result of rate increases implemented by the primary local cable provider, coupled with growth in their customer base.

The City receives utility tax for garbage services provided by a private company through a franchise agreement with the City. Utility tax receipts from garbage services increased by 3 percent in 2014, which reflects moderate growth in the provider's customer base and a minor rate increase based on the annual percentage change in the consumer price index as authorized under the terms of their franchise agreement.

The increases in utility tax revenue outlined above were offset by a 7 percent reduction in utility tax generated from telephone services in 2014. The reduction from this revenue source in 2014 continues a trend experienced in each of the four preceding years as well. As explained earlier in this report, this trend is attributable to several factors, including the loss of taxable revenue resulting from the expansion of non-taxable data services by cellular phone service providers, bundling of services by providers at reduced rates for each of the bundled services, and a reduction of taxable revenue from land lines as a larger number of individuals are eliminating their home phone in favor of using their cell phone as their primary phone.

Lastly, utility tax generated from the sale of natural gas decreased by 22 percent in 2014, despite an average rate increase of approximately 18 percent implemented by the local natural gas provider at the conclusion of 2013. The decline in this revenue source experienced during 2014 was the direct result of the loss of revenue received from a natural gas broker operating in Kennewick. During the year, the Washington State Department of Revenue made a determination that the nexus for tax purposes on sales of natural gas from this broker was actually occurring in a neighboring city where the gas was used, rather than in Kennewick at a switch station where the title to the gas was transferred to the customer. As a result of this determination, the natural gas utility tax revenue the City had been receiving from this broker ceased. Additionally, the City was required to refund a full year of natural gas utility tax that had been received from this broker.

- ◆ Intergovernmental revenues increased by approximately 3 percent in 2014. The most significant factor in this overall trend was an increase in state-shared revenues. However, this trend is somewhat misleading because it actually represents only a partial restoration of the historical amount of state-shared revenue received by the City. During the 2012 Washington State legislative session, distributions of liquor excise tax to cities were eliminated through June of 2013 as part of the State's strategy to balance its General Fund budget. Based on the timing of liquor excise tax distributions, this would have left the City with only one of its normal four distributions in 2013. Unfortunately, during the 2013 legislative session, legislation was passed that also reduced future liquor excise tax payments for cities by 50% beginning in July of 2013 and again diverted that revenue to the State's General Fund through June of 2015. As a result, although the City received more state-shared liquor excise tax revenue in 2014 than it did in 2013; the amount received is still well below what the City has historically received.
- ◆ Revenue received for charges and services decreased by 4 percent in 2014. This overall decrease was the result of a reduction in internal charges paid to the General Fund for engineering services completed on City projects that are funded through the City's capital improvement fund.
- ◆ Transfers to the general fund decreased by approximately 1 percent in 2014. This revenue category consisted almost entirely of ongoing transfers from the City's public safety fund of revenues collected from a voted 2.5 percent utility tax on sales of natural gas, telephone and electricity, which originally was utilized to fund 32 police and fire positions that were added when the tax was enacted and continues to fund a portion of those positions today. As outlined earlier in greater detail, utility tax revenue derived from electric sales increased in 2014, while telephone and natural gas utility tax revenue declined significantly. The net result of these trends was a 1 percent overall decrease in transfers to the general fund for the year from these sources.
- ◆ Expenditures reported in the general fund increased by approximately \$539,000, or slightly more than 1 percent, in 2014. Major factors for this increase follow.

First, as explained in more detail earlier in this report within the analysis of the statement of activities for governmental activities, expenditures for salaries and wages increased as a result of negotiated pay increases for the City's union personnel and pay for performance awards to its non-represented employees. In 2014, the general fund experienced an increase of 3 percent in this expenditure category, or approximately \$767,000.

As also outlined earlier in this report, expenditures for personnel benefits increased only moderately during 2014 as a result of two primary factors. First, expenditures for retirement contributions for the State of Washington's Public Employee Retirement System (PERS) II and III retirement plans increased by approximately 9 percent in 2014 after contribution rates were increased in July of 2013 from 7.21 percent to 9.19 percent to address the unfunded liability of the state's PERS I plan. This increase was largely offset by a 2 percent reduction in the City's expenditures for health insurance, which represent approximately half of the City's total expenditures for benefits within the general fund. This decline was attributable to the fact that premium rates for the City's health insurance plan did not increase in 2014, while employee contributions towards premiums increased slightly.

Expenditures for intergovernmental services decreased by 4 percent within the general fund in 2014, or approximately \$209,000. This overall decrease was the result of several factors.

First, the City's expenditures for dispatch services declined by approximately \$89,000 during 2014, which was attributable to a significant reduction in the City's annual assessment from Benton County Emergency Services (BCES) for dispatch and emergency services. When establishing their 2014 budget, BCES was able to utilize a combination of line-item budget reductions and excess reserves to lower agency assessments significantly for 2014.

The City's cost for jail services also decreased during 2014 by approximately \$44,000, which was directly associated with a decline in the City's utilization of the facility. The City's total prisoner bed days decreased by approximately 3 percent in 2014 when compared to 2013.

Finally, the City's costs for District Court and public defense services decreased by approximately \$82,000 in 2014 based on a decrease to the City's allocation of the total costs of these programs, which is based on its caseload as a percentage of the caseload for all agencies that utilize the court's services. The City's allocation of District Court costs decreased to 26.12% in 2014 from 29.93% in 2013, while the City paid 37.8% of public defense costs in 2014 compared to 38.5% in 2013.

The community development fund has a total fund balance of \$335,036, all of which is restricted for grant related projects. Total fund balance increased by \$20,496 for the year ended December 31, 2014 in the fund. Although the purpose of the community development fund does not necessarily dictate that the fund should accumulate a larger fund balance, this increase may be interpreted to indicate a moderate improvement to the fund's overall financial condition.

The capital improvement fund has a total fund balance of \$7,425,384, of which \$1,696,605 is committed for advances to other funds in previous years and \$1,212,504 is committed to pay for park improvements. Overall fund balance increased by \$373,088 in 2014. Assigned fund balance in the capital improvement fund, which represents fund balance available for the purpose of the fund, increased by \$634,263 during 2014, which may be interpreted to indicate that the fund's financial condition improved slightly during the year.

The urban arterial fund has a total fund balance of \$1,030,969, all of which is assigned fund balance, or fund balance available for the purpose of the fund. For the year ended December 31, 2014, the urban arterial fund's fund balance increased by \$850,093. Due to the fact that the urban arterial street fund's primary purpose is to account for capital projects that are funded with state and federal grants that are generally paid on a reimbursement-type basis in conjunction with a city match, this change in fund balance

represents an accumulation of the city match for projects that had not been completed at the conclusion of 2014, rather than a true improvement in the financial condition of the fund.

The **proprietary funds** of the City of Kennewick are utilized to account for operations of the City that are commercial in nature and are accounted for in a manner more similar to private enterprise. The statements for proprietary funds contain very similar information to the business-type activities found in the government-wide statements, but in more detail.

Total net position of the City's enterprise (business-type) funds was \$144,937,752 as of December 31, 2014, which was an increase of \$5,510,286 for the year. Of the total net position for enterprise funds, \$137,560,465 represented a net investment in capital assets and \$2,116,394 was restricted for capital projects and debt service, leaving unrestricted net position of \$5,260,893. The unrestricted net position for enterprise (business-type) funds as a whole is significantly reduced by a deficit in the unrestricted net position of the coliseum fund. This deficit is the result of a decision by the City to utilize an interfund loan to acquire its coliseum facility, which results in the interfund debt being included in the calculation of unrestricted net position, as opposed to being included in the calculation of the net position category of net investment in capital assets.

The city's water and sewer, coliseum and medical services funds, which are its major enterprise funds, had total net position of \$126,080,452, \$5,803,901 and \$91,452, respectively, as of December 31, 2014. The water and sewer fund's net position consists of \$117,226,877 in net investment in capital assets, \$2,116,394 in restricted net position for capital projects and debt service, and \$6,737,181 in unrestricted net position. The coliseum fund's net position consists of \$8,933,776 in net investment in capital assets and a deficit of \$3,129,875 in unrestricted net position. And finally, the medical services fund's net position consists of \$27,116 in net investment in capital assets and \$64,336 in unrestricted net position. For each of these major enterprise funds, there were no significant restrictions or other commitments that will impact the availability of fund resources for future use.

Please refer to the discussion on business-type activities found earlier in this report for further details concerning the finances of business-type funds.

General Fund Budgetary Highlights

As mentioned previously, the City of Kennewick adopts a biennial budget. The year ended December 31, 2014, marks the completion of the City's 2013/2014 biennial budget cycle. Two budget adjustments were made to the City's budget during 2014. The budgetary comparison statement for the general fund provides more detail on these adjustments. The following are some of the major adjustments to the general fund budget during 2014:

- ◆ A reduction of estimated state-shared revenue of \$175,000 for the biennium due to legislation enacted after the City adopted its 2013/2014 biennial budget that reduced distributions of liquor excise tax to cities.
- ◆ An increase of \$236,000 in sales and use tax revenue based on revised projections for the 2013/2014 biennium.
- ◆ An increase of approximately \$291,000 for revenue received from state and federal agencies as a reimbursement for overtime expenditures incurred for fire personnel responding to regional wild fires. This increase in revenue was accompanied by a corresponding increase in budgeted overtime and travel expenditures within the Fire Department.
- ◆ An increase of \$120,000 for additional rental and lease revenue based on revised projections for the 2013/2014 biennium. This increase in revenue was accompanied by a corresponding increase in budgeted part-time wages and other operating costs associated with the facility rentals.
- ◆ A reduction of \$199,000 for overhead charges from the general fund to the water and sewer fund for the 2013/2014 biennium based on an update to the City's cost allocation plan.

- ◆ An increase of \$168,000 for engineering services revenue for the 2013/2014 biennium based on revised projections resulting from an increase in project activity.
- ◆ A decrease of \$354,000 for fire hydrant system maintenance for the 2013/2014 biennium after legislation was passed by the State of Washington clarifying that these expenditures were an authorized expense of a water and sewer utility, rather than a general fund obligation.
- ◆ The addition of a \$525,000 transfer to the City's risk management fund from unassigned fund balance in the general fund to replenish and ensure adequate reserve levels within the fund.
- ◆ The addition of a \$100,000 transfer to the City's cash reserve fund from unassigned fund balance in the general fund to increase the balance of the reserve fund in both 2013 and 2014 pursuant to a City Council budget policy that the City's cash reserve fund balance will be increased each year by the annual percentage change in the consumer price index (CPI).
- ◆ A decrease of approximately \$474,000 in the budgeted ending unassigned fund balance in the general fund based on revised projections for the 2013/2014 biennium.

At the close of the 2013/2014 biennium, general fund revenues were 98.1 percent of the adjusted biennial budget. Actual expenditures in the general fund for the biennium were also 98.1 percent of the adjusted biennial budget.

The City's general fund had an unassigned fund balance of \$2,423,684 as of December 31, 2014, which was higher than the budgeted ending fund balance for the 2013/2014 biennium and exceeded the City's budgetary policy to maintain an ending fund balance of at least 5 percent of budgeted annual operating expenditures. Additionally, the City also continues to maintain a cash reserve balance for revenue stabilization and contingencies with a balance of approximately \$2.72 million. Together these balances represented 10.6 percent of 2014 operating funds expenditures.

Capital Assets and Debt Administration

Capital Assets:

The City of Kennewick's investment in capital assets for its governmental and business-type activities as of December 31, 2014, amounts to approximately \$371,189,000 (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure such as roads and bridges, equipment, and construction in progress.

As the following table illustrates, the City of Kennewick's net capital assets increased by just under 4 percent for the year (a 3 percent increase in governmental activities and a 5 percent increase in business-type activities).

City of Kennewick
Capital Assets, net of depreciation
(In thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 85,660	\$ 82,563	\$ 2,988	\$ 2,988	\$ 88,648	\$ 85,551
Buildings	30,017	30,857	143,310	144,592	173,327	175,449
Improvements other than buildings	12,936	13,679	-	-	12,936	13,679
Infrastructure	58,102	55,435	-	-	58,102	55,435
Equipment	8,239	8,703	3,282	3,617	11,521	12,320
Construction in progress	12,079	10,615	14,547	5,415	26,626	16,030
Intangibles	-	-	29	29	29	29
Total capital assets	\$ 207,033	\$ 201,852	\$ 164,156	\$ 156,641	\$ 371,189	\$ 358,493

Major capital asset events during the current fiscal year included the following:

- ◆ A \$5.7 million street construction project to construct a new section of the City’s Steptoe Street from Center Parkway to 4th Avenue was completed, which is the second phase of a project that will link the City’s retail district to the southern growth area of the city.
- ◆ A variety of other major street construction projects across the City were in progress at the close of the year, including a \$5.3 million project to construct the final phase of Steptoe Street and a \$6 million project to construct Hildebrand Boulevard from Steptoe Street to the existing Hildebrand Boulevard at the intersection of Sherman Street, which are the final roadway connections needed to link the City’s retail district to the southern growth area of the city, and a \$5.1 million project to connect State Route 397 to 27th Street via Olympia Street in the southeastern area of the City. Construction in progress for these projects and various other street projects was approximately \$8.7 million as of December 31, 2014.
- ◆ Within the City’s water and sewer business-type activity, a significant amount of water and sewer infrastructure associated with the City’s major street construction projects was in progress or completed during 2014. Additionally, approximately \$2.1 million was expended during the year to upgrade a major sewer interceptor in the City and an additional \$3.1 million was expended during the year towards the construction of a new \$5.1 million reservoir in zone 4 of the City.

Additional information about the City’s capital assets can be found in note 6.

Long-term debt:

City of Kennewick
Outstanding Debt
As of December 31,

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 23,820,000	\$ 25,480,000	\$ -	\$ -	\$ 23,820,000	\$ 25,480,000
Notes and loans	2,374,063	2,923,184	26,595,408	25,069,409	28,969,471	27,992,593
Capital leases	1,305,148	1,181,136	-	-	1,305,148	1,181,136
Special assessments	85,849	85,849	-	-	85,849	85,849
	<u>\$ 27,585,060</u>	<u>\$ 29,670,169</u>	<u>\$ 26,595,408</u>	<u>\$ 25,069,409</u>	<u>\$ 54,180,468</u>	<u>\$ 54,739,578</u>

The City of Kennewick’s total debt decreased by \$559,110 (1 percent) during the year ended December 31, 2014. Activity within both governmental and business-type activities during 2014 primarily consisted of scheduled payments on the City’s existing debt obligations. Additionally, within governmental activities, a capital lease of \$345,980 was utilized to finance a citywide computer replacement project. Within business-type activities, \$3,650,671 in new debt was issued to finance the construction of a new water reservoir and \$593,292 was issued to finance storm water projects.

At the conclusion of 2013, the City underwent a rating review from Standard & Poor’s and received notification in early 2014 of an upgrade to its previous A+ rating to a rating of AA for its limited tax general obligation (LTGO) bonds.

State statutes limit the amount of general obligation debt the City can issue to a percentage of the total assessed value of the taxable property of the City. The City is allowed to issue up to 1.5 percent of total assessed value for non-voted debt and 2.5 percent for voted debt. In addition, the City may issue up to 7.5 percent of assessed value for voted debt in excess of the 2.5 percent limit if it is for utilities, parks or open space purposes. As of December 31, 2014, the City had approximately \$55 million in non-voted capacity and \$110 million in voted capacity. The City has a contingent loan agreement in place with the Kennewick

Public Facilities District (KPFDD) to loan the KPFDD money if it is unable to pay debt service on its outstanding debt associated with the construction of its Three Rivers Convention Center, which is not reflected in the debt capacity figures provided above. As of December 31, 2014, the balance outstanding of the KPFDD's debt was \$12,205,000.

Additional information on the City of Kennewick's long-term debt can be found in note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

As mentioned previously, the City of Kennewick adopts a biennial budget. The close of the year ended December 31, 2014 marks the conclusion of the City's 2013/2014 budget cycle. The local economy for the City of Kennewick and Tri-Cities region as a whole continued to be relatively healthy during the biennium, which is reflected in the financial results of the City for this period. However, several financial challenges remain as the City begins its 2015/2016 biennium. The following is one of the key factors that may impact the City's governmental activities in 2015 and beyond:

- ◆ Like many states across the nation, the State of Washington has faced severe budget deficits over the past 5-6 years. In order to balance its 2013-2015 biennial budget, the state made several budget cuts that dramatically impacted all Washington cities, including Kennewick. Perhaps the item with the most significant impact to the City of Kennewick was the elimination of the Public Works Trust Fund (P WTF) low-interest loan program, which the City had anticipated using to finance just under \$13 million in critical street and other infrastructure improvements in its growing southern area. Without the P WTF program, the City was forced to explore more costly financing alternatives and ultimately defer or eliminate important capital projects to ensure that adequate funding is available for the completion of the highest priority projects for the City. Additionally, the state reduced state-shared liquor excise tax revenues historically provided to cities by 50 percent beginning in July of 2013 and extending through at least the remainder of the State's 2013-2015 biennium. The City estimates that it lost approximately \$200,000 per year as a result of this change alone, which had a significant operational impact. As the state prepares its next biennial budget during the 2015 legislative session, it faces immense challenges including a \$2 billion shortfall resulting from a court mandate to fund basic education at a higher level. As a result, the City remains extremely vulnerable to further state program cuts, fee increases, unfunded mandates and further reductions in revenue sharing.

The following are some factors that may impact the City's business-type activities in 2015 and beyond:

- As required under State law, the City completed a comprehensive cost of service study for its ambulance program (ambulance business-type activity) in 2014 in conjunction with the development of the City's 2015/2016 biennial budget. The results of that study indicated that the City had capacity to increase its monthly ambulance availability charge assessed to all residential, commercial and multi-family units from its current level of \$5.67 per month to an amount as high as \$9.64 per month. The Kennewick City Council elected to modify the City's ambulance charge to \$6.67 per month effective January 1, 2015 and then to \$7.67 per month effective January 1, 2016, which will significantly reduce the amount of ongoing subsidy required from the City's general fund for this program. Additionally, the remaining capacity available for the monthly ambulance charge provides a potential funding source for the future needs of the City's ambulance program.
- During the 2015/2016 biennium, the City will be conducting a rate review for its water and sewer utility (business-type activity), incorporating the results of updates to the utility's water and sewer comprehensive plan updates, as well as other maintenance and operational needs that have been identified as necessary to keep pace with the growth occurring in the City's water and sewer systems. Although the outcome of this rate review will not be known until the latter part of the 2015/2016 biennium and any modifications to rates will likely not be implemented until the following biennium,

there is a distinct possibility that the rate structure for the water and sewer utility will be changing as it has been over 20 years since the City last conducted a rate review.

A copy of the City of Kennewick's most recent budget document for the 2015/2016 biennium is available upon request and can also be accessed on the City's web site at <http://www.go2kennewick.com>.

Requests for Information

This financial report is designed to provide a general overview of the City of Kennewick's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the office of the Finance Director, City of Kennewick, 210 W. 6th Avenue, PO Box 6108, Kennewick, WA 99336.

Statement of Net Position
December 31, 2014 (with comparative totals for 2013)

	Primary Government				Component Unit		
	Governmental Activities	Business-type Activities	Totals		Public Facilities District		
			2014	2013	2014	2013	
ASSETS							
Current assets:							
Equity in pooled cash & investments	\$ 16,775,329	\$ 7,854,535	\$ 24,629,864	\$ 21,781,927	\$ 2,197,321	\$ 2,184,254	
Receivables, net	9,402,828	2,103,158	11,505,986	12,351,352	311,656	153,058	
Due from primary government	-	-	-	-	160,095	48,958	
Internal balances	9,295,571	(9,295,571)	-	-	-	-	
Inventories	195,071	326,589	521,660	570,092	36,506	33,791	
Prepaid items	-	57,045	57,045	72,155	44,048	37,219	
Total current assets	35,668,799	1,045,756	36,714,555	34,775,526	2,749,626	2,457,280	
Noncurrent assets:							
Restricted equity in pooled cash & investments	1,351,737	2,116,394	3,468,131	3,879,453	-	-	
Net pension obligation	157,296	-	157,296	93,641	-	-	
Investment in joint ventures	3,414,762	-	3,414,762	4,485,091	-	-	
Capital assets:							
Land and construction in progress	97,738,870	17,564,190	115,303,060	101,610,517	-	-	
Depreciable capital assets - net	109,294,521	146,591,683	255,886,204	256,882,783	12,442,813	12,869,317	
Total noncurrent assets	211,957,186	166,272,267	378,229,453	366,951,485	12,442,813	12,869,317	
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	403,391	-	403,391	464,533	409,758	422,069	
Total deferred outflows of resources	403,391	-	403,391	464,533	409,758	422,069	
Total assets and deferred outflows of resources	\$ 248,029,376	\$ 167,318,023	\$ 415,347,399	\$ 402,191,544	\$ 15,602,197	\$ 15,748,666	
LIABILITIES							
Current liabilities:							
Accounts payable and accrued items	\$ 2,882,762	\$ 1,166,731	\$ 4,049,493	\$ 3,765,302	\$ 163,088	\$ 112,279	
Due to component unit	-	160,095	160,095	48,958	-	-	
Liabilities payable from restricted assets	8,415	-	8,415	-	-	-	
Unearned revenue	224,580	488,289	712,869	714,359	85,344	64,288	
Other current liabilities	351,832	23,509	375,341	342,236	-	-	
Current portion of long-term obligations	4,351,216	3,480,754	7,831,970	7,736,094	695,000	640,000	
Total current liabilities	7,818,805	5,319,378	13,138,183	12,606,949	943,432	816,567	
Noncurrent liabilities:							
Landfill closure costs payable from restricted assets	90,519	-	90,519	153,338	-	-	
Net post employment benefit obligation	1,465,782	-	1,465,782	1,010,801	-	-	
Noncurrent portion of long-term obligations	28,052,239	25,196,755	53,248,994	52,499,029	11,974,098	12,592,421	
Total noncurrent liabilities	29,608,540	25,196,755	54,805,295	53,663,168	11,974,098	12,592,421	
Total liabilities	37,427,345	30,516,133	67,943,478	66,270,117	12,917,530	13,408,988	
NET POSITION							
Net investment in capital assets	179,385,930	137,560,465	316,946,395	303,675,600	183,473	58,965	
Restricted for:							
Capital projects	2,235,058	956,597	3,191,655	2,100,702	-	-	
Debt service	40,119	1,159,797	1,199,916	1,198,450	-	-	
Grant programs	3,296,386	-	3,296,386	3,190,896	-	-	
Cash reserve	2,715,500	-	2,715,500	2,675,500	-	-	
Unrestricted (deficit)	22,929,038	(2,874,969)	20,054,069	23,080,279	2,501,194	2,280,713	
Total net position	210,602,031	136,801,890	347,403,921	335,921,427	2,684,667	2,339,678	
Total liabilities and net position	\$ 248,029,376	\$ 167,318,023	\$ 415,347,399	\$ 402,191,544	\$ 15,602,197	\$ 15,748,666	

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

Statement of Activities
For the Year Ended December 31, 2014 (with comparative totals for 2013)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Public Facilities District		Component Unit				
					Governmental Activities	Business-type Activities	Totals	2013	2014	2013	2014		
Primary government:													
Governmental activities:													
General government	\$ 9,159,699	\$ 1,403,956	\$ 1,966,710	\$ -	\$ (5,789,033)	\$ -	\$ (5,789,033)	\$ (4,489,704)	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	29,690,920	2,329,894	110,277	-	(27,250,749)	-	(27,250,749)	(25,503,676)	-	-	-	-	-
Transportation	8,838,502	1,178,229	2,108,365	9,868,925	4,317,017	-	4,317,017	(198,646)	-	-	-	-	-
Physical environment	469,205	488,655	-	-	19,450	-	19,450	204,290	-	-	-	-	-
Economic environment	2,126,169	621,851	1,071,966	-	(432,352)	-	(432,352)	(703,196)	-	-	-	-	-
Social services	50,310	-	-	-	(50,310)	-	(50,310)	(205,718)	-	-	-	-	-
Culture and recreation	6,857,438	669,367	7,936	-	(6,180,135)	-	(6,180,135)	(5,804,967)	-	-	-	-	-
Interest on long-term debt	1,204,850	-	7,936	-	(1,204,850)	-	(1,204,850)	(1,337,002)	-	-	-	-	-
Total governmental activities	\$ 58,487,093	\$ 6,691,952	\$ 5,265,254	\$ 9,868,925	\$ (36,660,962)	\$ -	\$ (36,660,962)	\$ (38,039,519)	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:													
Water and Sewer	16,139,077	17,544,445	-	3,205,335	-	4,610,703	4,610,703	4,984,982	-	-	-	-	-
Medical Services	4,423,588	4,020,189	-	-	-	(403,399)	(403,399)	(86,443)	-	-	-	-	-
Building Safety	1,248,757	1,623,412	-	-	-	374,655	374,655	11,370	-	-	-	-	-
Stormwater	1,547,131	1,290,136	-	373,653	-	116,638	116,638	139,890	-	-	-	-	-
Golf Course	302,752	198,070	-	-	-	(104,682)	(104,682)	(118,354)	-	-	-	-	-
Coliseum	3,806,441	2,684,510	-	-	-	(1,121,931)	(1,121,931)	(964,637)	-	-	-	-	-
Total business-type activities	\$ 27,467,746	\$ 27,360,762	\$ -	\$ 3,578,988	\$ -	\$ 3,472,004	\$ 3,472,004	\$ 3,966,808	\$ -	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 85,954,839	\$ 34,052,714	\$ 5,265,254	\$ 13,447,913	\$ (36,660,962)	\$ 3,472,004	\$ (33,188,958)	\$ (34,072,711)	\$ -	\$ -	\$ -	\$ -	\$ -
Component unit:													
Public Facilities District	3,552,463	2,233,526	522,938	-	-	-	-	-	-	-	-	(795,999)	(1,311,859)
Total component unit	\$ 3,552,463	\$ 2,233,526	\$ 522,938	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (795,999)	\$ (1,311,859)
General revenues:													
Property taxes					\$ 11,844,378	\$ -	\$ 11,844,378	\$ 11,377,879	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes					17,536,255	-	17,536,255	16,989,376	1,138,040	-	-	1,079,179	-
Utility taxes					10,759,476	-	10,759,476	11,182,612	-	-	-	-	-
Real estate excise tax					1,610,706	-	1,610,706	1,566,341	-	-	-	-	-
Gambling excise tax					746,328	-	746,328	726,917	-	-	-	-	-
Lodging tax					914,197	-	914,197	839,674	-	-	-	-	-
Other taxes					423,926	-	423,926	257,892	-	-	-	-	-
Unrestricted investment earnings					163,430	79,623	243,053	181,736	2,948	-	-	3,339	-
Gain on sale of capital assets					593,125	-	593,125	569,956	-	-	-	-	-
Transfers					(1,054,030)	1,054,030	-	-	-	-	-	-	-
Total general revenues and transfers					\$ 43,337,797	\$ 1,133,655	\$ 44,671,452	\$ 43,642,383	\$ 1,140,988	\$ -	\$ -	\$ 1,082,338	\$ -
Change in net position					6,876,835	4,605,659	11,482,494	9,569,672	344,989	-	-	(229,321)	-
Net position - beginning					203,725,196	132,196,231	335,921,427	336,351,755	2,339,678	-	-	2,568,999	-
Net position - ending					\$ 210,602,031	\$ 136,801,890	\$ 347,403,921	\$ 335,921,427	\$ 2,684,667	\$ -	\$ -	\$ 2,339,678	\$ -

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

Balance Sheet
 Governmental Funds
 December 31, 2014 (with comparative totals for 2013)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
ASSETS				
Equity in pooled cash & investments	\$ 6,358,772	\$ 242,802	\$ 4,700,118	\$ 643,217
Receivables (net of allowance for uncollectibles)	3,330,800	2,924,004	1,038,565	275
Due from other funds	5,489	-	1,696,608	-
Due from other governments	30,576	113,372	-	1,381,236
Restricted equity in pooled cash & investments	-	40,837	1,220,418	-
Total assets	\$ 9,725,637	\$ 3,321,015	\$ 8,655,709	\$ 2,024,728
LIABILITIES				
Accounts payable	\$ 1,186,314	\$ 23,101	\$ 308,318	\$ 993,759
Due to other funds	-	-	-	-
Due to other governments	757	1,528	-	-
Deposits payable	351,520	-	-	-
Unearned revenue	214,580	-	10,000	-
Liabilities payable from restricted assets	-	-	8,415	-
Total liabilities	1,753,171	24,629	326,733	993,759
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	2,833,282	2,961,350	903,592	-
Total deferred inflows of resources	2,833,282	2,961,350	903,592	-
FUND BALANCES				
Restricted				
Debt service	-	-	-	-
Community development	-	335,036	-	-
Special revenue	-	-	-	-
Committed				
Coliseum loan	-	-	1,696,605	-
Park reserves	-	-	1,212,504	-
Debt service	-	-	-	-
Cash reserve	2,715,500	-	-	-
Assigned				
Capital projects	-	-	4,516,275	1,030,969
Debt service	-	-	-	-
Special revenue	-	-	-	-
Unassigned	2,423,684	-	-	-
Total fund balances	5,139,184	335,036	7,425,384	1,030,969
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 9,725,637	\$ 3,321,015	\$ 8,655,709	\$ 2,024,728

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2014	2013
\$ 375,654	\$ 12,320,563	\$ 11,366,166
570,786	7,864,430	8,023,105
-	1,702,097	2,354,116
27	1,525,211	1,157,108
-	1,261,255	1,226,568
<u>\$ 946,467</u>	<u>\$ 24,673,556</u>	<u>\$ 24,127,063</u>
\$ 105,925	\$ 2,617,417	\$ 2,293,260
542,388	542,388	858,321
1,815	4,100	2,333
-	351,520	316,380
312	224,892	244,510
-	8,415	-
<u>650,440</u>	<u>3,748,732</u>	<u>3,714,804</u>
564,035	7,262,259	7,404,470
<u>564,035</u>	<u>7,262,259</u>	<u>7,404,470</u>
5,068	5,068	3,972
-	335,036	314,540
234,052	234,052	300,448
-	1,696,605	1,987,851
-	1,212,504	1,182,433
31	31	30
-	2,715,500	2,675,500
-	5,547,244	4,062,888
35,020	35,020	36,403
18,395	18,395	48,259
(560,574)	1,863,110	2,395,465
<u>(268,008)</u>	<u>13,662,565</u>	<u>13,007,789</u>
\$ 946,467	\$ 24,673,556	\$ 24,127,063

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position - Governmental Activities
December 31, 2014

Total governmental fund balances	\$ 13,662,565
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	203,832,531
Other long-term assets are earned in the upcoming period but not available to pay for current period expenditures.	7,262,258
Internal service funds are used by management to charge the costs of fleet management, central stores and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	18,225,288
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(32,380,611)</u>
Net position of governmental activities	<u><u>\$ 210,602,031</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2014 (with comparative totals for 2013)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
REVENUES				
Taxes:				
Property	\$ 11,001,210	\$ -	\$ 160,556	\$ -
Sales	13,763,419	-	3,629,741	-
Utility	8,694,866	-	-	-
Real estate excise tax	-	-	1,610,706	-
Gambling tax	746,328	-	-	-
Lodging tax	-	-	-	-
Other	421,597	-	-	-
Licenses and permits	620,109	-	-	-
Intergovernmental	1,850,967	986,972	15,817	6,208,022
Charges for services	4,688,163	-	144,519	-
Fines and forfeitures	1,262,089	-	-	-
Investment earnings	51,517	376	43,103	-
Special assessments	-	-	-	-
Rents and leases	328,244	-	13,115	-
Miscellaneous revenues	56,931	-	219,990	-
Total revenues	43,485,440	987,348	5,837,547	6,208,022
EXPENDITURES				
Current :				
General government	8,138,877	133,590	-	-
Public safety	27,388,968	-	-	-
Transportation	2,220,625	-	-	72,630
Social services	12,310	38,000	-	-
Physical environment	266,941	-	-	-
Economic environment	943,909	364,016	-	-
Culture and recreation	5,502,429	38,946	-	-
Debt service:				
Principal	-	-	549,123	-
Interest/issue costs	-	-	41,074	-
Capital outlay:				
General government	-	-	107,520	-
Public safety	6,495	-	445,474	-
Transportation	40,153	-	19,318	8,579,643
Physical environment	-	-	-	-
Total expenditures	44,520,707	574,552	1,162,509	8,652,273
Excess (deficiency) of revenues over (under) expenditures	(1,035,267)	412,796	4,675,038	(2,444,251)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,475,306	-	943,465	3,294,344
Transfers out	(1,867,782)	(392,300)	(6,218,541)	-
Debt issuance and capital leases	-	-	380,000	-
Disposition of capital assets	-	-	593,126	-
Total other financing sources (uses)	607,524	(392,300)	(4,301,950)	3,294,344
Net change in fund balances	(427,743)	20,496	373,088	850,093
Fund balances (deficit) - beginning	5,566,927	314,540	7,052,296	180,876
Fund balances (deficit) - ending	\$ 5,139,184	\$ 335,036	\$ 7,425,384	\$ 1,030,969

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2014	2013
\$ 679,485	\$ 11,841,251	\$ 11,358,829
8,958	17,402,118	16,911,524
2,431,648	11,126,514	11,263,993
-	1,610,706	1,566,341
-	746,328	726,917
901,229	901,229	839,201
1,503	423,100	431,680
-	620,109	568,552
1,808,800	10,870,578	7,197,780
914,880	5,747,562	5,736,960
-	1,262,089	1,266,500
15,563	110,559	58,926
11,223	11,223	7,944
-	341,359	274,837
64,587	341,507	555,147
<u>6,837,876</u>	<u>63,356,232</u>	<u>58,765,131</u>
304,472	8,576,939	8,907,284
52,349	27,441,317	26,983,661
1,957,311	4,250,566	5,975,384
-	50,310	205,718
-	266,941	253,144
745,782	2,053,707	1,860,839
-	5,541,375	5,128,378
1,660,000	2,209,123	2,649,505
1,237,674	1,278,748	1,343,865
-	107,520	845,885
-	451,969	65,204
-	8,639,114	4,060,985
56,476	56,476	476,956
<u>6,014,064</u>	<u>60,924,105</u>	<u>58,756,808</u>
<u>823,812</u>	<u>2,432,127</u>	<u>8,323</u>
2,261,862	8,974,977	8,608,213
(3,246,832)	(11,725,454)	(10,883,775)
-	380,000	-
-	593,126	580,676
<u>(984,970)</u>	<u>(1,777,351)</u>	<u>(1,694,886)</u>
<u>(161,158)</u>	<u>654,776</u>	<u>(1,686,563)</u>
<u>(106,850)</u>	<u>13,007,789</u>	<u>14,694,352</u>
\$ (268,008)	\$ 13,662,565	\$ 13,007,789

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, 2014

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

Net change in fund balances - total governmental funds \$ 654,776

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 depreciation exceeded capital outlays in the current period.

Capital Outlays	\$ 9,255,079		
Depreciation	(6,437,662)		
Cost of Assets Sold	<u>(838,695)</u>		1,978,722

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amount are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

1,829,123

In the statement of activities, developer contributions are reported as income for the City based on the fair market value of these assets.

3,637,477

The statement of activities shows increases and (decreases) in the City's equity interest in joint ventures.

(1,070,329)

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

(142,209)

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.

(1,123,262)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities are reported with governmental activities.

1,112,537

Change in net position of governmental activities

\$ 6,876,835

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

Statement of Net Position
Proprietary Funds
December 31, 2014 (with comparative totals for 2013)

	Business-Type Activities			
	Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	Other Non-Major Enterprise Funds
ASSETS				
Current assets:				
Equity in pooled cash & investments	\$ 5,671,188	\$ 542,006	\$ -	\$ 1,641,341
Receivables, net	1,034,065	170,461	521,478	82,080
Due from other funds	1,846,836	-	-	40,691
Due from other governments	234,978	-	-	60,096
Inventories	271,819	51,311	-	3,456
Prepaid items	-	55,916	-	1,129
Total current assets	<u>9,058,886</u>	<u>819,694</u>	<u>521,478</u>	<u>1,828,793</u>
Noncurrent assets:				
Restricted equity in pooled cash & investments	2,116,394	-	-	-
Capital assets:				
Land	1,734,272	1,282,641	-	-
Buildings and improvements	193,586,396	12,213,526	-	17,293,828
Equipment	6,732,980	3,842,992	72,829	47,700
Construction in progress	14,475,755	-	-	71,522
Less accumulated depreciation	(73,285,401)	(8,405,383)	(45,713)	(5,462,071)
Total noncurrent assets	<u>145,360,396</u>	<u>8,933,776</u>	<u>27,116</u>	<u>11,950,979</u>
Total Assets	<u>\$ 154,419,282</u>	<u>\$ 9,753,470</u>	<u>\$ 548,594</u>	<u>\$ 13,779,772</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 739,150	\$ 280,711	\$ 85,663	\$ 45,381
Due to other funds	-	3,006,545	40,691	-
Due to component unit	-	160,095	-	-
Accrued interest payable	-	15,823	-	-
Compensated absences	221,175	-	127,726	86,745
Bonds, notes, and loans payable	2,972,424	-	-	64,435
Deposits payable	19,976	-	-	3,533
Other current liabilities	-	486,395	-	1,894
Total current liabilities	<u>3,952,725</u>	<u>3,949,569</u>	<u>254,080</u>	<u>201,988</u>
Noncurrent liabilities:				
Landfill closure costs payable from restricted assets	-	-	-	-
Compensated absences	278,487	-	203,062	101,989
Bonds, notes, and loans payable	23,044,701	-	-	513,848
Other noncurrent liabilities	1,062,917	-	-	-
Total noncurrent liabilities	<u>24,386,105</u>	<u>-</u>	<u>203,062</u>	<u>615,837</u>
Total Liabilities	<u>28,338,830</u>	<u>3,949,569</u>	<u>457,142</u>	<u>817,825</u>
NET POSITION				
Net investment in capital assets	117,226,877	8,933,776	27,116	11,372,696
Restricted for:				
Capital projects	956,597	-	-	-
Debt service	1,159,797	-	-	-
Unrestricted	6,737,181	(3,129,875)	64,336	1,589,251
Total Net Position	<u>126,080,452</u>	<u>5,803,901</u>	<u>91,452</u>	<u>12,961,947</u>
Total Liabilities and Net Position	<u>\$ 154,419,282</u>	<u>\$ 9,753,470</u>	<u>\$ 548,594</u>	<u>\$ 13,779,772</u>

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

Business-Type Activities		Governmental Activities	
Enterprise Funds		Internal Service Funds	
2014	2013	2014	2013
\$ 7,854,535	\$ 7,077,088	\$ 4,454,766	\$ 3,941,264
1,808,084	1,909,302	13,187	70,024
1,887,527	2,151,469	-	-
295,074	1,191,813	-	-
326,586	349,548	195,071	220,544
57,045	72,155	-	-
<u>12,228,851</u>	<u>12,751,375</u>	<u>4,663,024</u>	<u>4,231,832</u>
2,116,394	1,897,039	90,482	153,255
3,016,913	3,016,913	-	-
223,093,750	219,367,613	318,843	318,843
10,696,501	10,645,310	14,942,773	14,886,845
14,547,277	5,415,171	-	-
(87,198,568)	(81,804,150)	(8,645,994)	(8,154,813)
<u>166,272,267</u>	<u>158,537,896</u>	<u>6,706,104</u>	<u>7,204,130</u>
\$ 178,501,118	\$ 171,289,271	\$ 11,369,128	\$ 11,435,962
\$ 1,150,905	\$ 1,242,040	\$ 132,138	\$ 98,534
3,047,236	3,647,262	-	-
160,095	48,958	-	-
15,823	15,759	3,024	3,396
435,646	524,447	20,710	24,949
3,036,859	2,793,820	227,602	221,968
23,509	23,853	-	-
488,289	471,852	-	-
<u>8,358,362</u>	<u>8,767,991</u>	<u>383,474</u>	<u>348,847</u>
-	-	90,519	153,338
583,538	215,308	20,591	13,918
23,558,549	22,275,589	785,117	1,038,341
1,062,917	602,917	-	-
<u>25,205,004</u>	<u>23,093,814</u>	<u>896,227</u>	<u>1,205,597</u>
33,563,366	31,861,805	1,279,701	1,554,444
137,560,465	131,571,448	5,602,903	5,790,565
956,597	737,393	-	-
1,159,797	1,159,646	-	-
5,260,893	5,958,979	4,486,524	4,090,953
<u>144,937,752</u>	<u>139,427,466</u>	<u>10,089,427</u>	<u>9,881,518</u>
\$ 178,501,118	\$ 171,289,271	\$ 11,369,128	\$ 11,435,962

Reconciliation of the Statement of Net Position - Proprietary Funds
To the Government-Wide Statement of Net Position - Business-Type Activities
December 31, 2014

Amounts reported for business-type activities in the statement of net position are different because:

Net position - total enterprise funds	\$ 144,937,752
The accumulated net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(8,135,862)</u>
Net position of business-type activities	<u>\$ 136,801,890</u>

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Business-type Activities- Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	Other Non-Major Enterprise Funds
Operating revenues:				
Charges for services	\$ 17,550,765	\$ 2,684,512	\$ 4,020,234	\$ 2,964,146
Other operating revenues	-	-	-	146,794
Total operating revenues	<u>17,550,765</u>	<u>2,684,512</u>	<u>4,020,234</u>	<u>3,110,940</u>
Operating expenses:				
Maintenance and operations	6,093,948	3,123,126	3,183,857	2,430,292
Administrative and general	2,748,316	-	845,369	105,177
Taxes	2,106,968	40,517	95,684	28,298
Depreciation	4,476,947	570,039	4,150	347,495
Total operating expenses	<u>15,426,179</u>	<u>3,733,682</u>	<u>4,129,060</u>	<u>2,911,262</u>
Operating income (loss)	<u>2,124,586</u>	<u>(1,049,170)</u>	<u>(108,826)</u>	<u>199,678</u>
Nonoperating revenues (expenses):				
Investment earnings	71,830	-	(59)	7,853
Interest expense	(328,312)	(34,622)	-	-
Miscellaneous nonoperating revenue (expenses)	-	-	-	678
Gain (loss) on disposition of assets	(6,320)	-	(45)	-
Total nonoperating revenue (expenses)	<u>(262,802)</u>	<u>(34,622)</u>	<u>(104)</u>	<u>8,531</u>
Income (loss) before contributions and transfers	<u>1,861,784</u>	<u>(1,083,792)</u>	<u>(108,930)</u>	<u>208,209</u>
Capital contributions	3,205,335	-	-	373,653
Transfers in	-	1,023,110	-	82,000
Transfers out	(50,083)	-	-	(1,000)
Change in net position	<u>5,017,036</u>	<u>(60,682)</u>	<u>(108,930)</u>	<u>662,862</u>
Total net position - beginning	<u>121,063,416</u>	<u>5,864,583</u>	<u>200,382</u>	<u>12,299,085</u>
Total net position - ending	<u>\$ 126,080,452</u>	<u>\$ 5,803,901</u>	<u>\$ 91,452</u>	<u>\$ 12,961,947</u>

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

Business-type Activities- Enterprise Funds		Governmental Activities	
Total Enterprise Funds		Total Internal Service	
2014	2013	2014	2013
\$ 27,219,657	\$ 26,390,622	\$ 3,177,556	\$ 2,750,820
146,794	104,734	-	-
<u>27,366,451</u>	<u>26,495,356</u>	<u>3,177,556</u>	<u>2,750,820</u>
14,831,223	14,233,997	3,550,776	2,859,721
3,698,862	3,454,637	13,104	13,104
2,271,467	2,205,780	-	-
5,398,631	5,180,775	1,078,536	834,434
<u>26,200,183</u>	<u>25,075,189</u>	<u>4,642,416</u>	<u>3,707,259</u>
1,166,268	1,420,167	(1,464,860)	(956,439)
79,624	82,127	24,515	17,930
(362,934)	(409,230)	(12,514)	(5,902)
678	-	9,095	23,041
(6,365)	11,536	(44,777)	(32,770)
<u>(288,997)</u>	<u>(315,567)</u>	<u>(23,681)</u>	<u>2,299</u>
877,271	1,104,600	(1,488,541)	(954,140)
3,578,988	3,642,149	-	-
1,105,110	1,399,014	1,736,300	1,154,905
(51,083)	(278,357)	(39,850)	-
<u>5,510,286</u>	<u>5,867,406</u>	<u>207,909</u>	<u>200,765</u>
139,427,466	133,560,060	9,881,518	9,680,753
<u>\$ 144,937,752</u>	<u>\$ 139,427,466</u>	<u>\$ 10,089,427</u>	<u>\$ 9,881,518</u>

Reconciliation of the Statement of Revenues,
 Expenses, and Changes in Fund Net Position of Proprietary Funds
 To the Statement of Activities - Business-Type Activities
 For the Year Ended December 31, 2014

Amounts reported for business-type activities in the statement of activities are different because:

Net change in net position - total enterprise funds	\$ 5,510,286
The current year net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(904,627)</u>
Change in net position of business-type activities	<u>\$ 4,605,659</u>

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Business-type Activities - Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	Other Non- Major Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 16,518,486	\$ 2,622,662	\$ 4,186,862	\$ 2,963,239
Other operating revenue	1,062,058	-	-	-
Payments to suppliers	(3,523,157)	(1,680,246)	(2,880,350)	(939,973)
Payments to employees	(5,240,964)	(1,484,431)	(1,180,427)	(1,562,941)
Other receipts	-	-	-	95,123
Internal activity - payments to other funds	(1,484,277)	-	-	(28,298)
Net cash provided by (used in) operating activities	<u>7,332,146</u>	<u>(542,015)</u>	<u>126,085</u>	<u>527,150</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances to other fund	(44,840)	-	-	-
Payments from landfill liability	-	-	-	-
Operating subsidies and transfers from other fund	-	943,850	40,691	231,155
Operating subsidies and transfers to other fund	-	-	-	(41,691)
Net cash provided by (used in) noncapital financing activities	<u>(44,840)</u>	<u>943,850</u>	<u>40,691</u>	<u>189,464</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	2,876,210	-	-	7,814
Advances to other fund	193,318	-	-	-
Proceeds from capital debt	4,409,312	29,728	-	279,533
Insurance proceeds related to capital assets	-	-	-	-
Purchases of capital assets	(12,153,624)	(41,068)	(10,516)	(348,918)
Principal paid on capital debt	(2,717,963)	(514,293)	-	-
Interest paid on capital debt	(328,314)	(34,561)	-	-
Proceeds from sale of equipment	-	-	(45)	-
Capital grant	832,652	-	-	-
Transfer for capital purposes	(50,083)	79,262	-	7,000
Net cash used in capital and related financing activities	<u>(6,938,492)</u>	<u>(480,932)</u>	<u>(10,561)</u>	<u>(54,571)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	57,272	-	(60)	7,770
Net cash provided by (used in) investing activities	<u>57,272</u>	<u>-</u>	<u>(60)</u>	<u>7,770</u>
Net increase (decrease) in pooled cash and investments	406,086	(79,097)	156,155	669,813
Balance - beginning of the year	7,381,496	621,103	(156,155)	971,528
Balance - end of the year	<u>\$ 7,787,582</u>	<u>\$ 542,006</u>	<u>\$ -</u>	<u>\$ 1,641,341</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,124,586	\$ (1,049,170)	\$ (108,826)	\$ 199,678
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	4,476,947	570,039	4,150	347,495
Miscellaneous nonoperating income	-	-	-	678
Change in assets and liabilities:				
Receivables, net	27,965	(80,179)	92,840	(52,072)
Change in uncollectible accounts	1,814	-	73,791	30
Inventories	27,978	(5,064)	-	48
Prepaid expenses	-	15,695	-	(585)
Accounts and other payables	38,789	(16,516)	18,244	(28,503)
Unearned revenue	460,000	18,331	-	-
Accrued expenses	174,067	4,849	45,886	60,381
Net cash provided by (used in) operating activities	<u>\$ 7,332,146</u>	<u>\$ (542,015)</u>	<u>\$ 126,085</u>	<u>\$ 527,150</u>
Noncash capital activities/developer contributions:	\$ 2,576,571	\$ -	\$ -	\$ 365,837
Noncash capital activities/transfer assets from other funds:	-	-	-	-

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

Business-type Activities Enterprise Funds		Governmental Activities Internal Service Funds	
Totals		Totals	
2014	2013	2014	2013
\$ 26,291,249	\$ 25,173,442	\$ 3,234,048	\$ 2,682,636
1,062,058	959,587	9,095	6,641
(9,023,726)	(8,703,550)	(2,957,947)	(2,403,031)
(9,468,763)	(9,038,777)	(573,123)	(473,545)
95,123	146,111	-	-
(1,512,575)	(1,462,835)	-	-
<u>7,443,366</u>	<u>7,073,978</u>	<u>(287,927)</u>	<u>(187,299)</u>
(44,840)	(479,284)	-	-
-	-	(63,606)	(49,954)
1,215,696	1,094,455	1,075,000	450,000
(41,691)	(156,155)	(39,850)	-
<u>1,129,165</u>	<u>459,016</u>	<u>971,544</u>	<u>400,046</u>
2,884,024	2,582,612	-	-
193,318	(170,431)	-	-
4,718,573	390,513	-	1,267,000
-	-	-	24,391
(12,554,126)	(9,716,103)	(697,230)	(2,456,031)
(3,232,256)	(3,148,876)	(221,968)	-
(362,875)	(411,514)	(38,506)	(14,593)
-	12,000	37,865	111,054
832,652	671,562	-	-
36,179	182,358	661,300	704,905
<u>(7,484,511)</u>	<u>(9,607,879)</u>	<u>(258,539)</u>	<u>(363,274)</u>
64,982	72,227	25,651	19,436
<u>64,982</u>	<u>72,227</u>	<u>25,651</u>	<u>19,436</u>
1,152,957	(2,002,658)	450,729	(131,091)
8,817,972	10,976,785	4,094,519	4,225,610
<u>\$ 9,970,929</u>	<u>\$ 8,974,127</u>	<u>\$ 4,545,248</u>	<u>\$ 4,094,519</u>
\$ 1,166,268	\$ 1,420,167	\$ (1,464,860)	\$ (956,439)
5,398,631	5,180,776	1,078,536	834,434
678	-	9,095	4,044
(11,446)	(377,120)	56,491	(65,589)
75,635	27,217	-	-
22,962	(18,310)	25,470	(6,070)
15,110	59,396	-	-
12,014	260,700	4,908	26,505
478,331	593,750	-	-
285,183	(72,598)	2,433	(24,184)
<u>\$ 7,443,366</u>	<u>\$ 7,073,978</u>	<u>\$ (287,927)</u>	<u>\$ (187,299)</u>
\$ 2,942,408	\$ 2,408,806	\$ -	\$ -
-	-	-	-

Statement of Fiduciary Net Position
 Fiduciary Funds
 December 31, 2014 (with comparative totals for 2013)

	Trust Funds		Agency Funds	
	2014	2013	2014	2013
ASSETS				
Equity in pooled cash & investments	\$ 2,117,936	\$ 1,562,177	\$ 1,253,949	\$ 1,170,738
Investments	85,849	85,849	-	-
Receivables	71,915	72,811	157	185
Due from other governments	-	-	42,687	9,705
Total assets	2,275,700	1,720,837	1,296,793	1,180,628
LIABILITIES				
Accounts payable	6,534	8,980	215,413	187,767
Due to other governments	-	-	1,054,115	955,700
Custodial accounts	-	-	27,265	37,161
Total liabilities	6,534	8,980	1,296,793	1,180,628
NET POSITION				
Held in trust for pension benefits and other purposes	\$ 2,269,166	\$ 1,711,857	\$ -	\$ -

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

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Trust Funds	
	2014	2013
ADDITIONS		
Contributions:		
Employer	\$ 1,210,987	\$ 1,187,852
Total contributions	1,210,987	1,187,852
Investment earnings:		
Interest	13,869	10,332
Total investment earnings	13,869	10,332
Total additions	1,224,856	1,198,184
DEDUCTIONS		
Benefits	668,103	769,563
Administrative expenses	(556)	4,600
Total deductions	667,547	774,163
Change in net position	557,309	424,021
Net position - beginning	1,711,857	1,287,836
Net position - ending	\$ 2,269,166	\$ 1,711,857

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

The City of Kennewick was incorporated on February 5, 1904 and operates under the laws of the State of Washington applicable to a Council-Manager form of government. As required by generally accepted accounting principles, the financial statements present the City of Kennewick as a primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

The City's primary government major operations include police and fire protection including emergency medical response, a water and sewer system, a storm drainage system, parks and recreation, street construction and maintenance, planning and zoning, and general administrative functions. The City's financial statements also include the financial activity of the City of Kennewick Foundation, a legally separate, tax exempt nonprofit corporation that was created solely for the purpose of providing a legal mechanism for the City to receive a gift from a private citizen of approximately 8.18 acres of land including buildings and other facilities situated on the land. The City of Kennewick Foundation was established for the exclusive benefit of the City of Kennewick and therefore meets the criteria established for blending its financial activity with that of a primary government.

The Kennewick Public Facilities District (District) was formed in December 2000, with a primary mission to build and operate a regional convention center as allowed by Washington state statute. The Public Facilities District is included in the City's reporting entity as a discretely presented component unit because of the financial accountability relationship. The City appoints the Public Facilities District five-member board and has the ability to impose its will on the District.

The District and the City entered into a lease under which the City provides the land on which the Three Rivers Convention Center is located. The lease has an initial term of fifty years, through April 15, 2053, with renewal options thereafter. The City is waiving rent through April 15, 2026, as an in-kind contribution. During this time, the rent will be valued at 10% of the fair market value of the leasehold real estate as determined by the City, subject to review every five years. Beginning April 15, 2026, the rent will change to \$1.00 per year. In addition to the payment of nominal rent, the District will be responsible for all costs of its maintenance, utilities, insurance and operation of the Convention Center.

The District and the City of Kennewick entered into an Annual Contribution Agreement in which the City agreed to issue \$3,995,000 in construction bonds and to provide annual financial support to the District. Until the year 2027, the City will pay the District an amount equal to (i) \$725,000 less (ii) the aggregate debt service payments on the City bonds during a calendar year, and less (iii) the Annual Credit. The Annual Credit is defined as the lesser of (i) \$600,000 and (ii) the sum of amounts received by the District from the Pasco Public Facility District that are in excess of \$150,000

annually. During 2027, the City's payments will be limited to the scheduled debt service on the District's bonds, reduced by amounts received by the District from the Benton Public Facility District and Pasco Public Facility District.

The City of Kennewick has a contingent payment obligation relating to bonds issued by the District for construction of the facility. The District's first principal payment was in 2012 and the final maturity of these bonds will occur in 2027. If the District has insufficient funds to make a required debt service payment, the City will make a loan to the District for that purpose. In the event the District lacks sufficient non-voted debt capacity to incur a loan, the City will make the debt service payment and receive a proportionate ownership interest in the facility.

The component unit columns in the financial statements include the financial data of the Kennewick Public Facilities District only; therefore segregation of this information separate from the face of the financial statements is not necessary.

Complete separate financial statements for the Kennewick Public Facilities District may be obtained at the Three Rivers Convention Center, 7016 W. Grandridge Blvd., Kennewick, Washington.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate 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 and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fiduciary funds account for resources legally held in trust or agency capacity for others and which therefore cannot be used to support the government's own programs. Trust funds employ the same

economic resource measurement focus and accrual basis of accounting as proprietary funds. Agency funds report only assets and liabilities and do not have a measurement focus. They use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and 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, revenues are considered to be available if they are collected within 15 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 within 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.

The City reports the following major governmental funds:

- **General Fund:** The government's primary operating fund. It accounts for all financial resources of the general government not accounted for in another fund. As of December 31, 2014, unassigned fund balance for the general fund was \$2,423,684, or 5.2 percent of total reported general fund expenditures and 5.01 percent of total operating fund expenditures (general and street fund), which exceeds the city's budgetary policy of maintaining fund balance equal to 5 percent of annual operating expenditures for these funds.
- Special Revenue:
 - **Community Development Fund** – The fund accounts for activities within the CDBG and HOME programs funded by grants from the U.S. Department of Housing and Urban Development (HUD). Sources of funds are derived from the HUD grant funds and program income.
- Capital Projects:
 - **Capital Improvement Fund** – The fund that accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
 - **Urban Arterial Street Fund** – The fund accounts for the continued development of the arterial street system within the City. Sources of funds are derived from indirect federal and direct state transportation grants and an operating transfer from the Capital Improvement Fund.

The City reports the following major enterprise funds:

- **Water and Sewer Fund:** The water and sewer fund operates the water distribution system, the sewer treatment plant, sewage pumping stations and collection systems.
- **Coliseum Fund:** The coliseum fund accounts for activities of the government's coliseum operations.
- **Medical Services Fund:** The medical services fund accounts for ambulance service operations.

Additionally, the City reports the following fund types:

- **Internal Service Funds:** Account for equipment rental, central stores and risk management functions.
- **Fiduciary Trust Funds:** Account for resources legally held in trust or agency capacity for others and which therefore cannot be used to support the government's own programs. The fiduciary fund category includes two trust funds for 1) firemen's pension and 2) OPEB and three agency trust funds for 1) payroll clearing fund 2) bi-county police information fund and 3) metro drug task force fund.

As a general rule, the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are actual costs and receipts that are not equivalent to overhead (e.g. insurance settlements, claim recoveries, miscellaneous revenues).

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for utility, ambulance, storm water, inspection services, golf course and coliseum sales and services. The principal operating revenues of the internal service funds are charges to customers for supply sales, copier services, fleet management and insurance. 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 non-operating revenues and expenses.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Equity in Pooled Cash and Investments – The City follows the practice of pooling cash and investments of individual funds for investment purposes. Each fund's portion of total cash and investments is summarized by fund type in the government-wide statement of net position as equity in pooled cash and investments. Cash with fiscal agent is disclosed separately.

Cash and Cash Equivalents - It is the City's policy to invest all temporary cash surpluses. At December 31, 2014, the treasurer was holding \$14,450,615 in cash on deposit with financial institutions and the State Treasurer's Investment Pool. The State Investment Pool is considered a cash equivalent. The interest on these balances is prorated to the various funds based on the average monthly balance for each fund.

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

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

Receivables - Taxes receivable consists of property, sales, utility and real estate excise taxes. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. Special assessments receivable consists of assessments that are recorded when levied and are liens against the property benefited. Deferred inflows related to assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2014, there were delinquent special assessments receivable in the amount of \$5,228. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at year-end.

Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable – Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” A separate schedule of interfund loans receivable and payable is furnished in Note 14.

Advances between funds are offset by a fund balance classification in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories – There are currently no inventories in governmental funds. Inventories in proprietary funds are valued by the FIFO method (which approximates the market value).

Restricted Assets and Liabilities – These accounts contain resources for construction and debt service in enterprise funds. Specific debt service reserve requirements are described in Note 9. The restricted assets of the enterprise funds are composed of pooled cash and investments of \$1,159,797 in Debt Service and \$956,597 in Capital Projects.

Capital Assets - All capital assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition and capitalized at cost in the government-wide statements. The City's Capital Asset Policy establishes a capitalization limit of \$5,000. Donated capital assets are reported at estimated fair market value at the time received. Public domain (infrastructure) general governmental capital assets such as roads, bridges, curbs and gutters, streets and sidewalks are capitalized and depreciated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment acquired by Proprietary and Pension Trust Funds are reported in those funds at cost or at estimated fair market value at time of donation. Construction costs that are reimbursed by users or are financed directly or indirectly by developers and property owners are capitalized and recognized as contributed capital revenue in the Enterprise Fund.

Depreciation - Depreciation is provided on capital assets. Depreciation is charged to operations of the Primary Government and Component Unit over the capital assets' estimated useful lives using the straight-line method. The following lives are used:

Buildings and Improvements	25 - 50 Years
Source of Supply Pumping, Treatment, and Distribution Mains and Reservoirs	13 - 60 Years
Lift Stations, Interceptors and Laterals	20 - 75 Years
General Plant	10 - 40 Years
Vehicles and Motorized Equipment	2 - 20 Years

Compensated Absences - Eligible employees can earn vacation leave and sick leave which, if unused, is paid upon termination of employment according to the terms of applicable collective bargaining agreements, personnel rules and regulations, and the employee's length of service. In governmental funds, only liabilities for compensated absences of employees terminated prior to the close of the calendar year that will not be paid until the subsequent year are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absence liability is only recognized in the government-wide report. In proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them. Compensated absences are shown as long and short term liabilities based on an estimated amount of annual usage. As of December 31, 2014, the City's compensated absences payable in accordance with GASB Statement No. 16 for all funds amounted to 122,320 hours and \$5,371,786. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Liabilities – 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 government activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Under GASB 65, bond issue costs are expensed as incurred. Long-term obligations used to finance Proprietary Fund operations and payable from revenue of the Proprietary Funds are accounted for in the applicable fund. See Note 11.

Deferred Outflow/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The one item the City is reporting in this category is unavailable revenue, which arises only under a modified accrual basis of accounting. Accordingly, this item is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: taxes, special assessments, and long-term loans made with Housing and Urban Development grant funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Unearned Revenue – This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition has not been met.

Fund Balance – Fund balance has been redefined by GASB 54 to establish fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

1. The restricted fund balance is used to describe the portion of fund balance that reflects constraints placed on the use of resources externally imposed by creditors, grantors, or contributors; or imposed by law through constitutional provisions or enabling legislation.
2. The committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The city council is the highest level of decision-making authority that can, by adoption of an ordinance, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.
3. The assigned fund balance classification of fund balances are constrained by the city council’s intent to be used for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds, at a minimum, are intended to be used for the purpose of the fund that is established by Council ordinance. While there are currently no assignments of fund balance in the General Fund, any assignments would be based on Council direction.
4. The unassigned classification of fund balances is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification will be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

There are times the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The city considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position.

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government wide

statement of net position. One element of that reconciliation explains that "long-term liabilities", including bonds payable, are not due and payable in the current period and therefore not reported in the funds. The details of this \$32,380,611 difference are following.

Bonds and Notes Payable	(\$ 23,905,849)
Bond Premium	(498,088)
Unamortized Refunding Gain	403,391
Public Works Trust Fund Loans Payable	(2,288,215)
Capital Lease	(345,980)
Net Pension Obligation	157,296
Net OPEB Obligation	(1,465,782)
Accrued Interest	(126,082)
Compensated Absences	(4,311,302)
	<u><u>(\$ 32,380,611)</u></u>

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The following table details the \$203,832,531 difference.

Land	\$ 85,660,007
Depreciable Assets	195,173,057
Depreciation	(92,494,158)
Construction in Progress	12,078,863
Joint Ventures	3,414,762
	<u><u>\$ 203,832,531</u></u>

Other long-term assets are earned in the upcoming period but not available for current period expenditures. The following table details the \$7,262,258 difference.

Operating Grant - Economic Environment	\$ 2,961,350
Special Assessment	88,544
Sales Tax	3,189,347
Motor Vehicle Fuel Tax	125,960
Utility Tax	426,500
Leasehold Excise Tax	4,783
Hotel/Motel Tax	114,816
Property Tax	350,958
	<u><u>\$ 7,262,258</u></u>

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

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.

The following table details the differences from capital activity in the current year.

Capital Outlays	\$ 9,255,079
Depreciation	(6,437,662)
Cost of Assets Sold	<u>(838,695)</u>
	<u><u>(\$ 1,978,722)</u></u>

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items and is as follows:

Debt Proceeds	(\$ 380,000)
Debt Retired	<u>2,209,123</u>
	<u><u>\$ 1,829,123</u></u>

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

Property Taxes	\$ 3,127
Sales Tax	134,137
Utility Tax	(367,038)
Other Tax	12,968
Contract Receivable	84,994
Miscellaneous Receivable	<u>(10,397)</u>
	<u><u>(\$ 142,209)</u></u>

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 the governmental funds.

Compensated Absences	(\$ 739,954)
Net Pension Obligation	63,655
OPEB Obligation	(454,981)
Interest on Long Term Debt	(16,102)
Amortized Bond Premium	85,262
Amortized Refunding Interest	<u>(61,142)</u>
	<u><u>(\$ 1,123,262)</u></u>

Internal service funds are used by management to charge the costs of certain activities, such as insurance, supplies and fleet maintenance to individual funds. These are shown on the following table.

Internal Service Fund Operating Costs	(\$ 1,104,776)
Transfer of Equipment to Internal Service Funds	541,124
Investment Earnings	24,518
Disposition of Capital Assets	(44,777)
Transfers	1,696,448
	<u>\$ 1,112,537</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Budgetary Information

The City of Kennewick follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1 in even-numbered years, the City Manager submits to the City Council a proposed operating budget for the biennial period commencing the following January 1. The operating budget includes proposed expenditures and their means of financing.
2. Public hearings are conducted at regular Council meetings to obtain taxpayer comments.
3. During December, the biennial budget is legally enacted through passage of an ordinance.
4. The adopted biennial budget constitutes the legal authority for expenditures. The level of control at which expenditures may not legally exceed appropriations is the fund. Revisions that alter the total expenditures of any fund must be approved by the City Council and adopted by ordinance. The City's biennial budget was amended twice during 2013 and twice in 2014. The financial statements present the amended budget as approved.
5. All appropriations, except for debt service and capital projects, lapse at the end of the biennium.
6. The City budgets all funds in accordance with the Optional Municipal Code 35A.33 of the Revised Code of Washington. Biennially appropriated budgets are adopted for the General and Special Revenue Funds on the modified accrual basis of accounting. Proprietary Funds are budgeted on the accrual basis. There are no differences between the budgetary basis and generally accepted accounting principles.

Budgets which are established for Debt Service, Capital Projects and Proprietary Funds are "management budgets" and as such are not reported in the CAFR.

B. Encumbrance Accounting

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances are made at the

time goods or services are requisitioned based upon estimated or known costs. Upon payment, this encumbered value is reversed and the actual cost recorded. At year end the amount of encumbrances expected to be honored upon performance is 100% as the City is currently in the middle of the budget biennium. Total encumbrances are as follows:

Encumbrances	
General Fund	\$ 92,814
Capital Improvement Fund	101,337
Urban Arterial Street Fund	3,956,877
Othe Non-Major Govt'l Funds	118,576
Water/Sewer Fund	2,181,251
Other Non-Major Enterprise Funds	2,459
	<u>161,215</u>
	<u>\$ 6,614,529</u>

C. Budget Revision

During 2013/2014 biennium, the biennial budget was revised as follows:

	Original Biennial Budget	Total Revisions	Amended Biennial Budget
General Fund	\$ 91,674,300	\$ 1,456,137	\$ 93,130,437
Street Fund	3,979,264	(44,800)	3,934,464
Arterial Street Fund	2,800,000	133,972	2,933,972
Urban Arterial Street Fund	7,400,000	18,979,523	26,379,523
Capital Improvement Fund	32,061,706	(6,937,982)	25,123,724
Water & Sewer Fund	53,624,565	1,672,799	55,297,364
Medical Services Fund	9,207,050	22,462	9,229,512
Building Safety Fund	2,770,000	135,974	2,905,974
Coliseum Fund	8,249,623	567,922	8,817,545
Stormwater Utility Fund	2,970,849	2,874,314	5,845,163
Columbia Park Golf Course Fund	648,200	(17,647)	630,553
Equipment Rental Fund	9,925,866	(100,835)	9,825,031
Central Stores Fund	656,140	42,068	698,208
Risk Management Fund	3,315,984	1,106,948	4,422,932
Debt Service Fund	6,166,163	14,832	6,180,995
LID Guaranty Fund	34,500	108	34,608
BI-PIN Operations Fund	629,262	-	629,262
Community Development Fund	1,310,800	1,302,342	2,613,142
MPD Assistant Operations Fund	71,600	12,817	84,417
Asset Forfeiture Fund	115,400	90,389	205,789
Public Safety Fund	5,265,416	-	5,265,416
Cash Reserve Fund	2,597,500	157,000	2,754,500
Lodging Tax Fund	2,700,000	152,954	2,852,954
Fire Pension Fund	1,135,470	4,841	1,140,311
OPEB Trust Fund	2,561,000	(22,474)	2,538,526
Total	\$ 251,870,658	\$ 21,603,664	\$ 273,474,322

NOTE 4 – EQUITY IN CASH, DEPOSITS AND INVESTMENTS

A. Cash and Deposits

At year-end, the carrying amount of the City’s cash balances was \$705,485, which consisted of \$735,833 per the City’s checking account bank balances, deposits in transit of \$230,617, \$68,150 in cash drawers and advance travel funds, less outstanding checks of \$329,115. No deposits were uninsured or uncollateralized.

The City’s deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State statute, members of WPDPC may be assessed losses on a prorated basis if the pool’s collateral provides insufficient coverage. Deposits collateralized in the multiple institution collateral pool are considered insured, and therefore not exposed to custodial credit risk.

The following is a summary of cash and deposits as of December 31, 2014:

<u>Item</u>	
Checking Accounts Deposits	\$ 637,335
Cash in Change Funds	48,150
Cash in Advance Travel Funds	<u>20,000</u>
	<u>\$ 705,485</u>

B. Investments

All of the City's investments are stated at amortized cost, except in the case of the State Treasurer’s Investment Pool. The City’s deposits in the State Treasurer’s investment pool are reported based on the pool’s share price since it is a 2a7-like pool. The fair value of the positions in the State Treasurer’s Investment Pool is the same as the value of the pool shares. The State Treasurer’s Investment Pool was formed under and is regulated by the Revised Code of Washington.

As of December 31, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Agency Securities	\$17,049,595	\$17,001,957	2.55
State Treasurer's Investment Pool	<u>13,714,782</u>	<u>13,714,782</u>	0.00
Total	\$30,764,377	\$30,716,739	
Portfolio weighted average			1.42

The Firemen’s Pension Trust Fund investment total includes \$85,849 in a special assessment installment note.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the maturity of investments to five years, unless matched to a specific cash flow. In addition, to achieve its financial objective of maintaining liquidity to meet all operating requirements, the City typically selects investments that have much shorter average maturities.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state law and local ordinances, all investments of the City's funds (except as noted) are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool or certificates of deposit with Washington State banks. The City has no investment policy that would further limit its investment choices. As of December 31, 2014, the City's investments in agency securities were all rated AAA. The State Treasurer's Investment Pool is unrated. The credit risk of the State Treasurer's Investment Pool is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the State Pool are all classified as category 1 risk level investments. They are either insured or held by a third-party custody provider in the State Pool's name.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not allow for an investment in any one security type or financial institution that is in excess of fifty percent of total investments. The City's investments in which more than five percent is invested in any single issuer as of December 31, 2014 are shown in the following table.

Concentration of Credit Risk as a Percentage of Total Investments

<u>Issuer</u>		<u>Book Value</u>
Federal National Mortgage Association	\$8,048,678	26%
Federal Home Loan Mortgage Corp	3,001,239	10%
Federal Home Loan Bank	2,999,900	10%
Federal Farm Credit Bank	2,999,777	10%

Custodial credit risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments that are in the possession of an outside party. By City policy, all security transactions are settled "delivery versus payment". This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the City's safekeeping bank.

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed to the City on a daily basis by the County Treasurer in compliance with RCW 84.56.230.

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 unearned revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. For Kennewick, this limit has been reduced to \$3.22 per \$1,000 of assessed valuation to reflect the City's annexation to the Kennewick Library District. The levy rate is also subject to the following limitations:

- A. The Washington State Constitution limits total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.
- B. Washington State law in RCW 84.55.010 limits the growth of non-voted property taxes to the lesser of 1% per year, or the Implicit Price Deflator. Adjustments for new construction and annexations are excluded from this calculation.

As a code city, Kennewick must adopt a separate ordinance or resolution authorizing a property tax increase in both dollars and percentage to be filed with the County by November 30th. The City's regular levy for 2014 was \$2.1409 per \$1,000, on an assessed valuation of \$5,330,558,565, for a total regular levy of \$11,412,425. The City dedicated \$96,000 of the regular levy to the Firemen's Pension Fund. Special levies approved by the voters are not subject to the limitations listed above. In 2014, the City levied an additional \$.0766 per \$1,000 for the 1996 voter-approved G.O. bond issue for a total additional levy of \$406,000.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows

Governmental Activities	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Non-depreciable capital assets:				
Land (including ROW)	\$ 82,563,177	\$ 3,120,031	\$ (23,201)	\$ 85,660,007
Construction in Progress	10,615,256	8,785,988	(7,322,381)	12,078,863
Subtotal non-depreciable capital assets	93,178,433	11,906,019	(7,345,582)	97,738,870
Depreciable capital assets:				
Buildings	42,640,512	-	-	42,640,512
Improvements other than buildings	19,518,770	-	(33,230)	19,485,540
Infrastructure	122,264,422	7,105,896	-	129,370,318
Equipment	18,506,194	1,928,949	(1,496,841)	18,938,302
Subtotal depreciable capital assets	202,929,898	9,034,845	(1,530,071)	210,434,672
Accumulated Depreciation:				
Buildings	(11,783,501)	(840,430)	-	(12,623,931)
Improvements other than buildings	(5,839,719)	(742,557)	33,230	(6,549,046)
Infrastructure	(66,828,970)	(4,438,617)	-	(71,267,587)
Equipment	(9,803,698)	(1,494,594)	598,705	(10,699,587)
Subtotal accumulated depreciation	(94,255,888)	(7,516,198)	631,935	(101,140,151)
Governmental activities capital assets, net	\$ 201,852,443	\$ 13,424,666	\$ (8,243,718)	\$ 207,033,391

Business-Type Activities	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Non-depreciable capital assets:				
Land	\$ 2,987,734	\$ -	\$ -	\$ 2,987,734
Intangible	29,179	-	-	29,179
Construction in Progress	5,415,171	9,972,647	(840,541)	14,547,277
Subtotal non-depreciable capital assets	8,432,084	9,972,647	(840,541)	17,564,190
Depreciable capital assets:				
Buildings and improvements	218,979,832	3,726,136	-	222,705,968
Equipment	11,033,092	61,725	(10,533)	11,084,284
Subtotal depreciable capital assets	230,012,924	3,787,861	(10,533)	233,790,252
Accumulated Depreciation:				
Buildings and improvements	(74,387,478)	(5,009,295)	-	(79,396,773)
Equipment	(7,416,673)	(389,336)	4,213	(7,801,796)
Subtotal accumulated depreciation	(81,804,151)	(5,398,631)	4,213	(87,198,569)
Business-type activities capital assets, net	\$ 156,640,857	\$ 8,361,877	\$ (846,861)	\$ 164,155,873

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

Governmental activities:

General Government	\$ 536,389
Public Safety	1,131,154
Physical Environment	201,395
Transportation	4,513,169
Economic Environment	46,405
Culture & Recreation	1,087,686
Total	<u>\$ 7,516,198</u>

Business-type activities:

Water and sewer service	\$ 4,476,947
Medical service	4,151
Coliseum service	570,039
Golf Course service	329,886
Stormwater service	17,608
Total	<u>\$ 5,398,631</u>

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized in 2014.

The City has active construction projects as of December 31, 2014. At year-end the City's significant commitments with vendors are as shown on the following schedule.

Project	Spent to Date	Remaining Commitment
Step toe road extension/construction	\$ 4,372,973	\$ 2,224,117
Olympia - SR397 to 27th	4,416,136	195,644
Southridge/Hildebrand roadways	478,497	2,359,503
Dayton St - CID Canal Bridge	583,378	61,622
Grandridge and Young	574,294	75,706
Columbia Center Blvd Citywide Safety	689,179	5,821
City Hall	-	90,275
6W - Cascade	23	8,285
Zone 4 Reservoir - Thompson Hill	4,244,305	657,695
Filter Plant Improvements	-	541,199
Thompson Hill Zone 6 Booster	-	12,100
Beech St - 10th to Kennewick	2,003,079	3,935
Transportation Equipment	407	159,201
	\$ 17,362,271	\$ 6,395,103

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on

or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 55 with 25 years of service, or at the age of 60 with five years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Non-vested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for

state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.18%.
- ** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
- *** Plan 3 defined benefit portion only.
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Government	12.26%	12.30%	7.50%***

- * The employer rates include the employer administrative expense fee currently set at 0.18%.
- ** Plan 3 defined benefit portion only.
- ***Minimum rate.

Both City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$25,073	\$943,142	\$285,385
2013	20,588	797,493	255,928
2012	26,202	674,196	214,270

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of 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 (FAS) is as follows:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Nonvested	1,600
Total	29,640

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements 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, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for ports and universities is 8.59%.

Both City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	\$168	\$907,964
2013	196	877,376
2012	183	833,614

C. Firemen's Pension Fund

The City administers a closed, small single-employer defined benefit plan called Firemen's Pension Fund. The plan is shown as a trust fund in the financial reports of the City of Kennewick.

The most recent actuarial study of the system was performed to determine the funding requirements as of January 1, 2014. This plan was not audited; however, a copy of the review can be obtained by request at the following address: City of Kennewick, 210 W. 6th Ave., Kennewick WA, 99336.

The City of Kennewick's obligations under the Firemen's Pension Fund are limited to pension benefits provided to firefighters retired prior to March 1, 1970. As of December 31, 2014, there were 9 retirees and 3 survivors covered by the Fund, all of which were drawing pension benefits.

To meet these obligations, the City may contribute annually to the Fund the amount raised by levying all or part of a tax of up to \$0.45 per \$1,000 of true and fair market value, the maximum provided by law for maintaining the Fund. Contributions also include donations and income from state fire insurance premium collection.

All actuarial calculations are based on RCW 41.16 and 41.18, the statutes establishing the Firefighter's Pension Fund, and RCW 41.26, the statute establishing the Washington Law Enforcement Officers' and Firefighters' Retirement System. Benefit provisions are established in state statute and may be amended only by the State Legislature.

Each retiree receives the greater of the benefit payable under the Washington Law Enforcement Officers' and Firefighters' Retirement System and the benefits available under the provisions of prior law. Where benefits under the old law exceed those under the new for any firefighter, the excess benefits are paid from the Firefighter's Pension Fund of the city employing them on March 1, 1970.

For a service retirement the member's benefit is 50% of salary plus an additional 2% for each year of service in excess of 25 years. The maximum benefit is 60% of salary. The survivor benefit is the same as the member's: if spouse – same plus additional 5% of salary per child, if no spouse – 30% of salary for first child, 10% for each additional child. The maximum benefit in either case is 60% of salary. For a duty disability retirement the member must be disabled for a six-month waiting period, during which time salary is payable from the Fund. The amount of the benefit is 50% of salary plus an additional 5% for each unmarried child under the age of 18. For a non-duty disability retirement the member must be disabled after a 90-day waiting period, during which time salary is payable from the Fund. For non-duty related disability the benefit is the same as duty related disability. For both the duty related and non-duty related disabilities the survivor benefits to spouse and/or child are as follows:

Percentage of salary:

- 33.3% to widow only
- 45.8% to widow and one child
- 47.6% to widow and two children
- 50.0% to widow and three children
- 33.3% to children only

For purposes of retirement benefit payments, salaries are escalated in proportion to the current salary of the rank from which the firefighter retired. After April 25, 1973, a minimum benefit of \$300 per month to all retired firefighters and their survivors apply. A funeral benefit of \$500 is provided to defray funeral expenses.

The cash balance at December 31, 2014 was \$778,860 and retirement pensions in 2014 totaled \$132,485.

The annual required contribution was computed using the entry age normal cost method. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age.

The annual pension cost (APC) and net pension obligation (NPO) are shown on the following schedule as of December 31:

	Fiscal Year Ending		
	2012	2013	2014
Amortization of UAAL (BOY)	\$ 117,542	\$ 117,542	\$ 102,383
Interest to end of year (EOY)	4,702	4,702	4,095
Annual required contribution (ARC)	122,244	122,244	106,478
Interest on NPO	717	(1,478)	(3,746)
Adjustment to ARC	(1,361)	2,921	7,727
Annual pension cost (APC)	121,600	123,687	110,459
Total contributions	176,474	180,370	174,113
Change in NPO	(54,874)	(56,683)	(63,654)
NPO at BOY	17,916	(36,958)	(93,642)
NPO at EOY	(36,958)	(93,642)	(157,296)

The following schedule shows the three-year trend beginning with 2012 as of December 31:

Year	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
2014	\$ 110,459	158%	\$ (157,296)
2013	123,687	146%	(93,641)
2012	121,600	145%	(36,958)

The following schedule shows the annual development of pension cost as of December 31:

Year	Annual Required Contribution	Interest On NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Contributions	Change in NPO	NPO Balance	Gain/Loss	Amortization Factor	Amortization of Gain/Loss	Ending Balance
2014	106,478	(3,746)	(7,727)	110,459	174,113	(63,654)	(157,296)	(67,636)	12.1184	(7,727)	(157,296)
2013	122,244	(1,478)	(2,921)	123,687	180,370	(56,684)	(93,641)	(58,126)	12.6523	(2,921)	(93,641)
2012	122,244	717	1,361	121,600	176,474	(54,874)	(36,958)	(54,230)	13.1657	1,361	(36,958)
2011	115,324	3,391	6,207	112,508	179,370	(66,862)	17,916	(64,046)	13.6593	6,207	17,916
2010	115,324	8,759	15,493	108,590	242,784	(134,194)	84,778	(127,460)	14.1339	15,493	84,778
2009	150,624	15,773	23,433	142,964	239,451	(96,487)	218,972	(88,827)	13.4622	23,433	218,972
2008	150,624	16,692	24,155	143,161	161,547	(18,386)	315,459	(10,922)	13.8212	24,155	315,459

Investment earnings are assumed to accrue at an annual rate of 4.0%. Salary and postretirement benefit increases are each estimated at 3.9% per annum. The inflation rate is assumed to increase at 2.8% per annum. The unfunded actuarial accrued liability is amortized as a level dollar amount over a closed 30-year period beginning January 1, 2000. All assets are carried on a market value basis and a 4.0% discount rate was used.

A supplemental schedule of funding progress follows the note's that presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Statewide City Employees Retirement System

Prior to 1972, all full-time City employees, except firemen, were covered by Statewide City Employees Retirement System, a contributory plan. PERS absorbed this retirement system in January 1972. The City pays defined benefits for one pensioner, which totaled \$2,604 in 2014.

NOTE 8 - SELF INSURANCE

The City is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established the Risk Management Fund (an Internal Service Fund) to account for and finance its uninsured losses.

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pool arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The City is a member of the Washington Cities Insurance Authority (WCIA) which was formed by nine cities on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' error or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence re-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence submit to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for liability, automobile physical damage and fidelity are purchased on a group basis. Various deductibles apply by type of coverage.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City of Kennewick also contracted with F. M. Global Insurance Company of Bellevue, Washington on September 1, 2004 to handle all property, inland marine, boiler and machinery claims. In general, claim deductibles are \$25,000 per occurrence. The City paid \$94,582 to F. M. Global Insurance Company for their services in 2014.

On December 18, 1979, the City established a self-insurance program for unemployment compensation, which is reported in the Risk Management Fund. Various City funds are charged premiums.

During 1983, self-insurance for sewer back-up claims was added to the Risk Management Fund. The source of revenue was a two percent surcharge added to sewer fees. The surcharge was eliminated on January 1, 1988 at which time the reserve was determined to be self-sustaining. In 1996, an unusual influx of claims was submitted and the Water/Sewer Fund contributed a one-time sum of \$100,000 to the reserve, an additional contribution was made during 2008 of \$75,000. Future claims will continue to be monitored and the two percent surcharge may be reinstated if it is deemed necessary. Reserves at December 31, 2014 were \$31,801.

During 1992, self-insurance for employee dental claims was added to the Risk Management Fund. Various City funds are charged monthly for premiums. Cash reserves available for claims on December 31, 2014, were \$91,875 and the liability for claims incurred but not reported (IBNR) was \$33,129 on that date. Management estimates unpaid claims based upon historical trends. Expenditures were not adjusted due to salvage or subrogation in 2014.

The change in aggregate liability for the Risk Management Fund for the prior and current fiscal years is as follows:

	2013				2014			
	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance
Unemployment Claims	\$ -	\$ 94,176	\$ (94,176)	\$ -	\$ -	\$ 111,989	\$ (111,989)	\$ -
Dental Claims	30,234	456,337	(455,931)	30,640	30,640	448,962	(446,473)	33,129
	<u>\$ 30,234</u>	<u>\$ 550,513</u>	<u>\$ (550,107)</u>	<u>\$ 30,640</u>	<u>\$ 30,640</u>	<u>\$ 560,951</u>	<u>\$ (558,462)</u>	<u>\$ 33,129</u>

During 2005, funds earmarked for the Pasco landfill settlement were reserved in the Risk Management Fund. This amount represents the City's portion of a larger settlement that was agreed upon by the group of entities participating in the landfill clean up ordered by the Department of Ecology. These funds will be used for future legal costs or to offset additional clean-up efforts. The balance as of December 31, 2014, was \$90,519.

Since 2011 the City has been with the Association of Washington Cities (AWC) Retrospective Rating Plan and paid \$39,276 to AWC to administer this program for 2014. The City received \$101,842 for 2013 refunds. Premium refunds totaling \$20,538 were received by Kennewick as part of a subsidy program for Employers from the Washington Department of Labor and Industries for providing modified duty to injured workers.

NOTE 9 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonded indebtedness has also been entered into in prior years to advance refund bonds. Currently, general obligation bonds are outstanding for general government activities only. General obligation bonds currently outstanding are as follows:

	Issuance Amount	Installments	Final Maturity	Interest Rates	Debt Outstanding
2005 GO Refunding Bonds	\$ 3,285,000	\$80,000 - \$385,000	12/2/2016	3.0 - 4.5%	\$ 760,000
2006 GO Bonds	9,790,000	\$270,000 - \$705,000	12/1/2025	3.75 - 5.0%	6,415,000
2010B GO Bonds	11,825,000	\$425,000 - \$830,000	12/1/2025	3.45 - 6.323%	11,825,000
2011 GO Refunding Bonds 03B	5,330,000	\$270,000 - \$705,000	12/1/2025	3.0 - 4.0%	4,820,000
					<u>\$ 23,820,000</u>

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

	Year Ended December 31								Total
	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	
Principal	\$1,730,000	\$1,785,000	\$1,460,000	\$1,510,000	\$1,570,000	\$8,090,000	\$3,845,000	\$3,830,000	\$23,820,000
Interest	1,150,356	1,081,519	1,003,461	945,799	884,666	3,366,852	1,827,493	745,057	11,005,203

Special Assessment Debt

Local improvement districts (LID's) are created for the primary purposes of constructing streets, storm drainage, sidewalk, street lighting, water, and sewer improvements. The principal and interest on the bond issues are expected to be paid solely from special assessments collected. The assessments are liens against the property and are subject to foreclosure.

Under the provisions of the City's LID bond ordinances, special assessment bonds are called annually with no premium as cash accumulates in the related Debt Service Fund. The bonds are called on the interest payment date in numerical order. If the available cash exceeds the annual debt service requirements, additional bonds may be redeemed prior to their stated maturity date.

The LID Guaranty Fund guarantees all unpaid special assessment bonds. State law requires that the Guaranty Fund maintain a balance of at least 10% of the outstanding obligations guaranteed by the fund in any single year. This balance is established and maintained by a tax levy not to exceed 12% of the amount guaranteed.

The City currently has one outstanding installment note from the Fire Pension Fund for LID #225. The note is currently \$85,849 and was issued March 1, 2012 at an interest rate of 3%. The note matures on March 1, 2022. Annual principal payments are made to the Fire Pension Fund with special assessment installments received to date. Property owners may pay off their special assessments in full at any time so note payments vary from year to year.

Debt Limit Capacities

The City's limitation on bond issues is established by State law and is calculated using a formula based on a percentage of assessed valuation (AV) of taxable property. The three specific debt capacities defined, their assessed value limitation and their remaining capacities at December 31, 2014 are as follows:

<u>Purpose</u>	<u>% of Av</u>	<u>Remaining Capacity</u>	<u>Notes</u>
General Government	2 1/2%	\$ 109,649,230	(\$55,010,270 is Councilmanic)
Park and Open Space	2 1/2%	135,097,230	
Utility	2 1/2%	135,097,230	

Notes and Loans Payable

The City has taken advantage of low interest loans through the State of Washington for the financing of street and utility projects for both general government and business-type activities.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 449,123	\$ 22,882	\$ 3,036,859	\$ 295,656
2016	449,123	18,391	3,130,740	251,183
2017	449,123	13,900	2,876,318	211,575
2018	449,123	9,408	2,913,354	151,871
2019	245,863	4,917	2,149,440	104,927
2020 - 2024	245,859	2,459	8,625,602	272,993
2025 - 2029	-	-	2,968,354	50,678
2030-2033	-	-	894,741	13,421
	<u>\$ 2,288,214</u>	<u>\$ 71,957</u>	<u>\$ 26,595,408</u>	<u>\$ 1,352,303</u>

Outstanding notes and loans are shown on the following table for both governmental and business activities as of December 31, 2014.

<u>Purpose</u>	<u>Issuance Amount</u>	<u>Installments</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Debt Outstanding</u>
<u>Governmental Activities:</u>					
PWTF - Comp Street Imp I	\$ 3,817,100	\$ 203,264	07/01/18	1.00%	\$ 813,057
PWTF - Comp Street Imp II	4,550,000	215,526	07/01/20	1.00%	1,475,157
Total Governmental Activities					<u>\$ 2,288,214</u>

Purpose	Issuance		Final	Interest Rates	Debt
	Amount	Installments	Maturity		Outstanding
Business-type Activities:					
PWTF - Water System Imp	\$ 6,856,358	\$ 368,669	07/01/16	1.00%	\$ 737,341
PWTF - Wastewater Lagoon	2,450,000	130,464	07/01/20	1.00%	782,787
PWTF - Misc W/S Imp	3,000,000	159,375	07/01/21	0.50%	1,115,625
PWTF - Advanced Water Treatment	9,500,000	531,250	07/01/25	0.50%	5,843,750
PWTF - Waste Wtr Trtmt Plant-Const	5,500,000	290,278	07/01/28	0.50%	4,063,888
PWTF - Zone 4 Reservoir	4,250,000	223,685	07/01/32	0.50%	4,250,000
CERB - Welch's Project	125,000	4,689 - 9,338	01/01/21	4.70%	70,430
WPCRF - LID Manual & Demo Project	390,000	90,358	12/31/19	1.40%	67,524
WPCRF - Wellhead Area Retrofit	690,000	159,871	12/31/18	1.40%	510,759
WPCRF - Kennewick Sustainability	725,000	167,993	03/01/21	1.40%	394,290
SRF - Drinking Water	4,040,000	212,632	10/01/24	1.50%	2,126,313
SRF - Water Treatment Facility	4,080,000	240,833	10/01/23	1.00%	2,039,998
SRF - Ranney Improvements	3,030,000	173,030	10/01/25	1.50%	1,733,326
SRF - Wastewater Treatment Facility	10,063,642	479,167 - 748,141	05/31/17	4.50%	<u>2,859,377</u>
Total Business-type Activities					<u>\$ 26,595,408</u>

At December 31, 2014, restricted assets in proprietary funds contain \$1,159,797 in reserves as required by the SRF loan agreement.

Arbitrage

Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax exempt borrowing rates. The U.S. Treasury requires payment every five years. As of December 31, 2014, there was no liability for rebatable arbitrage on any of the City's bond issues.

NOTE 10 – LEASES

Operating Leases

The City leases copiers under noncancelable operating leases: Total cost for such leases was \$28,119 for the year ended December 31, 2014. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2015	\$32,151
2016	29,857
2017	23,490
2018	10,849
2019	6,609

Capital Leases

The City capitalizes equipment obtained by financing lease agreements. The City had two outstanding lease agreements through the state's LOCAL lease program during 2014. One lease provided partial funding for the purchase of 29 police vehicles and 27 data mobile data terminals at a cost of \$1,301,390. The remaining lease provided funding to replace and or upgrade 304 computers at a cost of \$386,056.

The amount financed for the vehicles was \$1,181,136 with a 5 year term and a 1.36851% interest rate. Payments are made from the Equipment Rental Fund. The amount financed for the computers was \$345,980 with a 3 year term and a .70725% interest rate. Payments are made from the Capital Improvement Fund. Both leases were purchased at a premium, vehicles for \$91,259 and computers \$36,215, both of which are being amortized over the life of the lease. The amortizations are reflected in Note 11 under issuance premium.

Both leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present values of their future minimum lease payments as of the inception date. The assets acquired through the capital lease program, the future minimum lease obligations and the new present values of these minimum lease payments of December 31, 2014 are on the following schedule.

Leased Equipment	Governmental		Governmental	
	Activities	Year Ending December 31	Activities	
Police Vehicles	\$ 1,181,136	2015	\$	260,474
		2016		260,474
		2017		260,474
		2018		260,474
		Total minimum remaining lease pmts		1,041,896
		Less: amount representing interest		(82,728)
			\$	959,168
Computers	\$ 345,980	2015	\$	124,168
		2016		124,169
		2017		124,169
		Total minimum remaining lease pmts		372,506
		Less: amount representing interest		(26,526)
				\$

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

The following table shows a summary of changes in long-term liabilities for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 25,480,000	\$ -	\$ 1,660,000	\$ 23,820,000	\$ 1,730,000
Notes and loans	2,837,335	-	549,121	2,288,214	449,123
Special assessments	85,849	-	-	85,849	-
Total bonds and notes payable	28,403,184	-	2,209,121	26,194,063	2,179,123
Adjust for deferred amounts:					
For issuance premium	628,504	34,019	110,881	551,642	-
Landfill settlement	153,338	-	62,819	90,519	-
OPEB payable	1,010,801	454,981	-	1,465,782	-
Capital leases	1,181,136	345,980	221,968	1,305,148	337,212
Compensated absences	3,610,218	3,077,993	2,335,609	4,352,602	1,834,881
Governmental activity					
Long-term liabilities	<u>\$ 34,987,181</u>	<u>\$ 3,912,973</u>	<u>\$ 4,940,398</u>	<u>\$ 33,959,756</u>	<u>\$ 4,351,216</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Notes and loans payable	\$ 25,069,409	\$ 4,243,963	\$ 2,717,964	\$ 26,595,408	\$ 3,036,859
Biosolids reserve	602,917	460,000	-	1,062,917	-
Compensated absences	739,755	987,463	708,034	1,019,184	443,895
Business-type activity					
Long-term liabilities	<u>\$ 26,412,081</u>	<u>\$ 5,691,426</u>	<u>\$ 3,425,998</u>	<u>\$ 28,677,509</u>	<u>\$ 3,480,754</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. The above amounts include \$41,300 of internal services funds compensated absences. One capital lease for \$959,168 is also an internal service fund lease.

The biosolids reserve was established to pay for future maintenance costs associated with the periodic removal of biosolids from the sewer system.

Liabilities for compensated absences are liquidated using resources from the fund to which the employee terminating service previously charged his or her salary and benefit costs. Prior year liquidation of governmental fund compensated absences has been paid primarily from General Fund operating revenues. Liabilities for net pension obligations and net other postemployment benefit obligations are liquidated with the Firemen's Pension Fund and the OPEB Trust Fund respectively.

See Note 8 for discussion on landfill settlement.

NOTE 12 – CONTINGENT LIABILITIES AND LITIGATION

Contingent Liabilities

The City has received several Federal and State grants for specific purposes, which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Based upon experience, City Management believes such disallowance, if any, will be immaterial.

Litigation

The City, in the normal course of its activities, is involved in various claims and litigation. The City currently has several claims and lawsuits pending, which could ultimately result in liability for the City over the next few years. The amount of these claims cannot be reasonably estimated at this time and management estimates that claims not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

In November of 2010, the City received a claim from a cellular telephone service provider requesting a refund of utility tax paid by it to the City for portions of its sales of “data services” for a period between 2005 and 2010. The City disputes the amount of this claim and has hired an independent firm to represent it in this matter. Further, the City believes that a significant portion of the claim period has expired due to the statute of limitations for this type of claim.

The City is currently involved in a legal dispute over a licensing agreement with Union Pacific Railroad Co. related to rental payments for the use of approximately 5.7 miles of right-of-way property that runs over some of the City’s sewer and wastewater pipelines. Union Pacific has sued the City in federal court and contends the City owes unpaid rent under the licensing agreement dating back over a 10 year period. Any financial liability to the City stemming from this lawsuit would ultimately be paid from the City’s water and sewer fund (business-type-activity).

NOTE 13 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables at December 31, 2014 are shown on the following schedule:

Receivables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Govt'l Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor			Total
									Proprietary Fund	Internal Service Fund		
Interest	\$ 2,745	\$ 25	\$ 10,711	\$ 275	\$ 214	\$ 30,668	\$ -	\$ -	\$ 688	\$ 1,817	\$ 47,143	
Taxes	3,096,142	-	1,027,853	-	475,491	-	-	-	-	-	4,599,486	
Accounts	243,580	2,923,979	-	-	95,082	1,077,552	170,461	807,831	84,585	11,370	5,414,440	
Due from other governments	30,576	113,372	-	1,381,236	27	234,978	-	-	60,095	-	1,820,287	
Gross Receivables	3,373,043	3,037,376	1,038,564	1,381,511	570,814	1,343,198	170,461	807,831	145,368	13,187	11,881,356	
Less: allowance for uncollectible accounts	(11,668)	-	-	-	-	(74,155)	-	(286,354)	(3,193)	-	(375,370)	
Net Total Receivables	\$ 3,361,375	\$ 3,037,376	\$ 1,038,564	\$ 1,381,511	\$ 570,814	\$ 1,269,043	\$ 170,461	\$ 521,477	\$ 142,175	\$ 13,187	\$ 11,505,986	

B. Payables at December 31, 2014 are shown on the following table:

Payables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Gov't Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor		Total
									Proprietary Fund	Internal Service Fund	
Interest	\$ -	\$ -	\$ 591	\$ -	\$ -	\$ -	\$ 15,823	\$ -	\$ -	\$ 3,024	\$ 19,438
Claims and judgements	-	-	-	-	-	-	-	-	-	33,129	33,129
Accounts	569,164	20,934	307,727	993,759	76,663	660,919	273,896	15,355	18,634	89,512	3,026,563
Salaries and benefits	617,150	2,167	-	-	29,262	78,155	6,818	70,308	26,747	9,498	840,105
Due to other governments	757	1,528	-	-	1,815	76	-	-	-	-	4,176
Total Gov't & Bus Activities	\$ 1,187,071	\$ 24,629	\$ 308,318	\$ 993,759	\$ 107,740	\$ 739,150	\$ 296,537	\$ 85,663	\$ 45,381	\$ 135,163	\$ 3,923,411
Reconciliation of financial statements to governmental wide financial statements:											
Accrued long term interest	\$ 126,082	-	-	-	-	-	-	-	-	-	\$ 126,082
Net Total Payables	\$ 1,313,153	\$ 24,629	\$ 308,318	\$ 993,759	\$ 107,740	\$ 739,150	\$ 296,537	\$ 85,663	\$ 45,381	\$ 135,163	\$ 4,049,493

NOTE 14 - INTERFUND TRANSACTIONS

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
2. Transfers to support the operations of other funds are recorded as "Transfers" and classified as "Other Financing Sources or Uses" in the fund statements. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.
3. Capital contributions to enterprise or internal service funds, transfers of capital assets between proprietary and governmental funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as non-operating revenue.
4. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. Loans and Advances are subject to elimination upon consolidation.

As of December 31, 2014 outstanding interfund balances (resulting from various interfund transactions):

Interfund Loans	Purpose - Due to other funds	Due from other funds	Due to other funds
General Fund	Capital Construction	\$ 5,489	\$ -
Capital Improvement Fund	Capital Purchase	1,696,608	-
Other Non-Major Gov't Funds	Capital Construction	-	542,388
Medical Services Fund	Capital Purchase	-	40,691
Water & Sewer Fund	Capital Construction	1,846,836	-
Coliseum Fund	Capital Construction/Purchase	-	3,006,545
Other Non-Major Enterprise Funds	Capital Construction/Purchase	40,691	-
	Total	\$ 3,589,624	\$ 3,589,624

Interfund Transfers	Purpose - Transfers out	Transfers in	Transfers out
General Fund	Operations Transfers (Routine)	\$ 2,440,606	\$ -
General Fund	Capital Transfers (Non-routine)	34,700	517,782
General Fund	Operations Transfer (Golf Course)	-	75,000
General Fund	Operations Transfer (Coliseum)	-	200,000
General Fund	Operations Transfer (Risk Mngmt)	-	1,075,000
Community Development Fund	Capital (Non-routine)	-	392,300
Capital Improvement Fund	Capital Transfers (Non-routine)	943,465	3,974,200
Capital Improvement Fund	Debt Service (Routine)	-	2,244,341
Urban Arterial Street Fund	Capital (Non-routine)	3,294,344	-
Other Non-Major Govt'l Funds	Debt Service (Routine)	2,244,341	-
Other Non-Major Govt'l Funds	Operations Transfers (Routine)	-	3,184,455
Other Non-Major Govt'l Funds	Capital Transfers (Non-routine)	17,521	62,376
Water/Sewer Fund	Capital Transfers (Non-routine)	-	50,083
Coliseum Fund	Operations Transfers (Routine)	943,850	-
Coliseum Fund	Capital Transfers (Non-routine)	79,260	-
Other Non-Major Enterprise Funds	Operations Transfers (Routine)	75,000	-
Other Non-Major Enterprise Funds	Capital Transfers (Non-routine)	7,000	1,000
Internal Service Funds	Operations Transfers (Routine)	1,075,000	-
Internal Service Funds	Capital Transfers (Non-routine)	661,300	39,850
	Total	\$ 11,816,387	\$ 11,816,387

NOTE 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains six Enterprise Funds that provide ambulance service, building inspection services, water and sewer utility services, stormwater utility service, the operation of a golf course, and the operation of the coliseum. The only fund that meets the criteria for segment reporting is a major fund and therefore the required segment information can be found on the Proprietary Fund statements.

NOTE 16 - ECONOMIC DEVELOPMENT CORPORATION

The City of Kennewick established the Economic Development Corporation (EDC) in August 1982, under the provisions of Title 39, Chapter 84 of the Revised Code of Washington. The EDC was established for the purposes of facilitating local economic development and employment opportunities through the financing of industrial development facilities using non-recourse revenue bonds.

The EDC entered into an agreement with a non-governmental third party to provide financing through non-recourse revenue bonds, Series 1984, issued in the principal amount of \$1,500,000 on August 2, 1984. Debt service on this issue was completed in July 2004. The bonds did not constitute indebtedness of either the City or the State and were secured solely by revenues derived from the organization on whose behalf the bonds were issued.

The EDC is a discretely presented component unit of the City of Kennewick. It has a separate and distinct governing authority, which is appointed by the City. The City has no governing authority over the day-to-day operating decisions of the EDC; all obligations of the EDC are paid by user fees. The EDC is fiscally dependent upon the City as all bond issues must be approved by the City of Kennewick. The lack of any assets, liabilities or operating activities for 2014 precludes the need to include a separate column in the City's financial statements.

NOTE 17 - JOINT VENTURES

A. **Benton County Emergency Services**

Benton County Emergency Services (BCES), providing public safety communications and emergency management services, was formed January 1, 1997 when an Interlocal Agreement was entered into by the cities of Kennewick, Richland, West Richland, Benton City, Prosser and Benton County. The new Interlocal superseded the Interlocal Agreements previously associated with Benton County Emergency Management and Southeast Communications Center. The new Interlocal Agreement shall continue indefinitely, unless terminated by a participant.

Benton County Emergency Services is served by an Executive Board composed of the City Managers of Kennewick and Richland, City Administrators for Prosser and West Richland, a Councilmember from Benton City and a Benton County Commissioner.

Benton County Emergency Services is comprised of three Divisions: Southeast Communications Center (SECOMM), Benton County Emergency Management (BCEM) and 800 MHz Radio.

1. **SECOMM**

The Southeast Communications Center provides public safety communications services to three principal participating jurisdictions: The cities of Kennewick and Richland and Benton County. The three principal participating jurisdictions own an equal share of net position. Allocation of financial participation among the three principle jurisdictions is based on an equal share of capital expense and an equal share of predetermined fixed costs, direct costs and percent of use.

The Southeast Communications Center also provides public safety communications services via contract to the City of West Richland, Benton County Fire Protection District (BCFPD) #1, BCFPD #2, BCFPD #4. Service contract agencies are assessed on a cost per capita or cost per call basis.

2. **BCEM**

Benton County Emergency Management provides disaster response planning, event and response coordination and disaster recovery for Benton County and its political subdivisions per RCW 38.52. Four grant programs fund BCEM: Radiological Emergency Preparedness, DOE Emergency Preparedness, Chemical Stockpile Emergency Preparedness and State and Local Government Assistance program. The six participating jurisdictions own an equal share of net position unless otherwise defined in the grant programs. Financial participation for Benton County and the cities of Kennewick, Richland, West Richland, Prosser and Benton City are allocated based on an equal share of a predetermined basic charge and a value determined by percent of population and assessed value.

3. **800 MHz Radio**

800 MHz Radio provides communication infrastructure and technology for the dispatching of public safety agencies throughout Benton County. Participating agencies including Benton County Sheriff, Public Works and County Jail, the cities of Kennewick, Richland, West Richland and Prosser, Benton County Fire Districts 1, 2,3,4 and 6, Benton PUD, Tri-County Hazmat Team, AREVA and the regional hospitals (Our Lady Of Lourdes, Trios, Kadlec, St. Mary's and Prosser Memorial).

4. Microwave

The microwave system is accounted for separately within its own fund and the user groups are charged a portion of costs based on numbers of circuits utilized. Participating agencies including Benton County and the cities of Kennewick and Richland.

Effective January 1, 1997, the City of Richland assumed responsibility for operation of Benton County Emergency Services. As the Operating Jurisdiction, Richland provides all necessary administrative services for the operation of BCES.

On December 31, 2014, the City of Kennewick's equity interest in SECOMM was \$1,293,359, \$23,717 in BCEM, \$50,473 in Microwave and \$1,946,985 in 800 MHz Radio. This equity is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from BCES since charges are assessed only to recover anticipated expenses. Complete and separate financial statements for BCES, as SECOMM and BCEM, may be obtained at the City of Richland, 505 Swift Blvd., Richland, Washington.

B. Bi-County Police Information Network

The Bi-County Police Information Network (BI-PIN) was established November 24, 1982, when an Interlocal Agreement was entered into by eight participating municipal corporations; the cities of Kennewick, Pasco, Richland, Connell West Richland, and Prosser, and Benton and Franklin Counties. BI-PIN was established to assist the participating police and sheriff's departments in the deterrence and solution of criminal incidents. BI-PIN is served by an Executive Committee composed of the City Manager of each of the cities and a member from each of the Boards of County Commissioners of Benton and Franklin Counties. A liaison from the Bi-County Chiefs and Sheriffs is an ex officio, non-voting member.

The allocation of financial participation among the participating jurisdictions is based upon the approved budget for that year and is billed quarterly in advance to each agency. On dissolution of the Interlocal Agreement, the net position will be shared based upon participant contribution.

Effective January 1, 1992, the City of Kennewick assumed responsibility for operation of the BI-PIN system. As the Operating Jurisdiction, Kennewick provides all necessary support services for the operation of BI-PIN such as accounting, legal services, risk management and information systems. The total amount paid by BI-PIN in 2014 for these transactions was \$119,000.

The City of Kennewick's equity interest in BI-PIN was \$93,380 on December 31, 2014, which is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from BI-PIN since charges are assessed only to recover anticipated expenses.

Complete separate financial statements for BI-PIN may be obtained at the City of Kennewick, 210 W. 6th Ave., Kennewick, Washington, 99336.

C. Metro Drug Forfeiture Fund

The Metropolitan Controlled Substance Enforcement Group (Metro) was established prior to 1987, when an Interlocal Agreement was entered into by six participating municipal corporations, the cities of Kennewick, Pasco, Richland, and West Richland, and Benton and Franklin Counties. Metro was established to account for the proceeds of forfeitures, federal grants, and court ordered contributions, and to facilitate the disbursement of those proceeds for the purpose of drug enforcement and investigations. Metro is served by an Executive Committee composed of the City Manager or designee of each of the cities and a member from each of the Boards of County Commissioners of Benton and Franklin Counties. In addition, a Governing Board consisting of the Chiefs of Police from the cities and the Sheriffs from the counties administers daily activity.

Effective July 1, 2009, the City of Kennewick assumed responsibility for the operation of Metro. As the Operating Jurisdiction, Kennewick provides accounting services for the operation of Metro.

The City of Kennewick's equity interest in Metro was \$6,848 on June 30, 2014, which is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from Metro.

Complete separate financial statements for Metro may be obtained at the City of Kennewick, 210 West Sixth Avenue, Kennewick, Washington.

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

In addition to the pension benefits outlined in Note 7, the City of Kennewick provides post-retirement health care benefits in accordance with state statute for retired police officers and firefighters who are eligible under the Law Enforcement Officers' and Firefighters' (LEOFF) plan 1 retirement system. As of December 31, 2014, the City had 42 individuals that met the eligibility requirements of this retirement plan.

A. Plan Description

As required by the Revised Code of Washington (RCW), Chapter 41.26, the City provides lifetime medical care for members of the LEOFF retirement system that were hired prior to October 1, 1977 (LEOFF Plan 1 members). The members' necessary hospital, medical, and nursing home care expenses not payable from Medicare, insurance provided by another employer, another pension plan, or any other similar source are covered.

B. Funding Policy

Pursuant to state statute, the city reimburses 100% of authorized LEOFF 1 retiree healthcare costs. The city pays a monthly insurance premium to cover each retiree under its medical insurance program as well as any remaining eligible out of pocket expenses. Employer contributions are financed on a pay-as-you-go basis. Beginning in 2009, the city's costs for health insurance and other medical costs for retired firefighters and law enforcement officers were paid for out of its Other Post Employment Benefits (OPEB) Trust Fund. Funding for these costs is provided from the proceeds of a 6.5% utility tax assessed on water and sewer sales that was implemented beginning in 2009 and is dedicated for LEOFF 1 retiree medical costs. The projected revenue from this utility tax is expected to mirror the city's LEOFF 1 retiree medical costs over future years. As the city's obligations for these costs are reduced, the utility tax rate will also be reduced, until such time that it is completely eliminated. As of December 31, 2014, the city's OPEB Trust Fund had accumulated a fund balance of \$1,401,920. Although the accumulated balance is not considered to be an OPEB contribution because of the fact

that the city has not established an irrevocable trust, these funds are designated for the city's OPEB costs.

C. Annual OPEB Cost and Net OPEB Obligation

The city's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years as of January 1, 2011. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers with plans of less than one hundred members. The following table shows the components of the City's annual OPEB cost, contributions made by the City, and changes to the net OPEB obligation for the years ending December 31, 2012, 2013 and 2014, respectively.

	2012	2013	2014
Annual Required Contribution (ARC)*	\$ 955,089	\$ 959,790	\$ 1,006,385
Interest on net OPEB obligation**	27,775	31,317	40,432
Adjustment to the ARC***	(36,871)	(40,889)	(56,218)
Annual OPEB cost (expense)	945,993	950,218	990,599
Contributions made	(867,294)	(635,341)	(535,618)
Increase in net OPEB obligation	78,699	314,877	454,981
Net OPEB obligation - beginning of year	617,224	695,923	1,010,801
Net OPEB obligation - end of year	<u>\$ 695,923</u>	<u>\$ 1,010,801</u>	<u>\$ 1,465,782</u>

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31, 2012, 2013 and 2014, respectively, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$990,599	54.1%	\$1,465,782
12/31/13	\$950,218	66.9%	\$1,010,801
12/31/12	\$945,993	81.7%	\$695,923

D. Funding Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$17,139,220 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,139,220. The covered payroll (annual payroll of active employees covered by the plan) for 2014 was \$107,764, and the ratio of the UAAL to the covered payroll was 15,904 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates

are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City of Kennewick used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

F. OPEB Trust Fund Financial Statements

Statement of Net Position
 OPEB Trust Fund
 December 31, 2014 (with comparative totals for 2013)

	Totals	
	2014	2013
ASSETS		
Equity in pooled cash & investments	\$ 1,339,076	\$ 832,369
Investments	-	-
Receivables, net	69,378	70,135
 Total assets	 1,408,454	 902,504
LIABILITIES		
Accounts payable	6,534	8,980
 Total liabilities	 6,534	 8,980
NET POSITION		
Held in trust for pension benefits and other purposes	\$ 1,401,920	\$ 893,524

Statement of Changes in Net Position
 OPEB Trust Fund
 For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Totals	
	2014	2013
ADDITIONS		
Contributions:		
Employer	\$ 1,037,429	\$ 1,002,882
 Total contributions	 1,037,429	 1,002,882
Investment Earnings:		
Interest	6,585	3,459
 Total investment earnings	 6,585	 3,459
 Total additions	 1,044,014	 1,006,341
DEDUCTIONS		
Benefits	535,618	635,341
 Total deductions	 535,618	 635,341
 Change in net position	 508,396	 371,000
Net position - beginning	893,524	522,524
Net position - ending	\$ 1,401,920	\$ 893,524

NOTE 19 – ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST

A. Trust Description

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

Funding Policy

The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. In 2014, retirees of the City receiving medical benefits from the Trust contributed \$830.01 per month for non-Medicare enrolled retiree-only coverage, \$1,667.27 per month for non-Medicare enrolled retiree and spouse coverage, \$1,280.56 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$899.43 Medicare-enrolled retiree and spouse coverage. Participating employers are not contractually required to contribute at a rate assessed each year by the Trust for non-LEOFF I retirees. The retiree pays for 100% of the premium.

NOTE 20 - OTHER DISCLOSURES

Comparative Data/Reclassifications

Comparative total data for the prior year is presented on both government-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified for consistency purposes on the government-wide statement of net position with no impact on ending total net position.

Subsequent Event

In May of 2015, the City of Kennewick issued a \$3,255,000 Limited Tax General Obligation (GO) Bond, 2015A that is taxable, and a \$10,000,000 Limited Tax GO Improvement and Refunding Bond, 2015B that is tax exempt. The 2015A Bonds are being issued to acquire land within the City and pay the costs of issuance of the 2015A Bonds. The 2015B Bonds are being issued to construct and equip a new fire station, acquire firefighting equipment and vehicles (including a medic unit) and to refund all or a portion of the City’s callable outstanding Limited Tax GO Bonds, 2006 and pay the administrative costs of the refunding and the costs of issuance of the 2015B Bonds. The refunding portion of the 2015B Bonds provides the City with a net present value savings of \$483,212.

An irrevocable trust escrow will be established to pay interest on the Refunded Bonds when due, up to and including June 1, 2016; call, pay and redeem on June 1, 2016, all of the Refunded Bonds at a price of par, and pay the administrative costs of the refunding and the allocable costs related to the sale, issuance and delivery of the 2015B Bonds.

RSI – Required Supplementary Information

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended December 31, 2014

	2013/2014 Biennial Budgeted Amounts		Actuals		Variance with Final Budget - Over (Under)
	Original	Final	2013	2014	
REVENUES					
Taxes:					
Property	\$ 21,469,940	\$ 21,514,740	\$ 10,658,861	\$ 11,001,210	\$ 145,331
Sales	23,460,261	23,696,261	11,631,755	12,131,349	66,843
Utility	18,181,932	18,181,932	8,763,269	8,694,866	(723,797)
Gambling	1,837,000	1,837,000	726,917	746,328	(363,755)
Other	1,093,000	1,093,000	431,680	421,597	(239,723)
Licenses and permits	1,144,100	1,168,100	568,552	620,109	20,561
Intergovernmental	3,479,951	3,261,464	1,794,514	1,850,967	384,017
Charges for services	9,339,200	9,883,123	4,874,474	4,688,165	(320,484)
Fines and forfeitures	2,657,900	2,657,900	1,266,500	1,262,089	(129,311)
Investment earnings	150,000	150,000	21,019	51,517	(77,464)
Rents and leases	356,700	476,700	251,728	328,246	103,274
Miscellaneous revenues	438,900	590,054	304,684	56,927	(228,443)
Total revenues	83,608,884	84,510,274	41,293,953	41,853,370	(1,362,951)
EXPENDITURES					
Current :					
General government	16,282,099	16,465,449	7,931,920	7,756,131	(777,398)
Public safety	53,847,391	53,829,872	26,619,777	27,402,251	192,156
Transportation	3,102,094	3,189,127	1,592,498	1,712,439	115,810
Physical environment	523,359	528,999	253,144	266,941	(8,914)
Economic environment	2,234,577	2,266,327	1,033,398	943,909	(289,020)
Health	38,000	38,000	14,519	12,310	(11,171)
Culture and recreation	9,738,702	9,940,885	4,777,426	4,748,008	(415,451)
Capital outlay:					-
General government	-	15,500	7,364	-	(8,136)
Public safety	-	65,204	65,204	6,495	6,495
Transportation	-	40,200	-	40,153	(47)
Total expenditures	85,766,222	86,379,563	42,295,250	42,888,637	(1,195,676)
Excess (deficiency) of revenues over (under) expenditures	(2,157,338)	(1,869,289)	(1,001,297)	(1,035,267)	(167,275)
OTHER FINANCING SOURCES (USES)					
Transfers in	5,265,416	5,300,116	2,500,724	2,475,306	(324,086)
Transfers out	(3,510,000)	(4,374,828)	(1,928,046)	(1,907,782)	539,000
Total other financing sources and uses	1,755,416	925,288	572,678	567,524	214,914
Net change in fund balances	(401,922)	(944,001)	(428,619)	(467,743)	47,639
Fund balances - beginning	2,800,000	3,320,047	3,320,047	2,891,428	-
Fund balances - ending	\$ 2,398,078	\$ 2,376,046	\$ 2,891,428	\$ 2,423,685	\$ 47,639

See notes to required supplementary information.

RSI – Required Supplementary Information

Community Development Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended December 31, 2014

	2013/2014 Biennial Budgeted Amounts		Actuals		Variance with Final Budget - Over (Under)
	Original	Final	2013	2014	
REVENUES					
Intergovernmental	\$ 1,250,000	\$ 2,551,578	\$ 1,042,467	\$ 986,972	\$ (522,139)
Investment earnings	800	800	333	376	(91)
Total revenues	1,250,800	2,552,378	1,042,800	987,348	(522,230)
EXPENDITURES					
Current:					
Economic environment	1,000,000	1,926,728	556,476	574,552	(795,700)
Total expenditures	1,000,000	1,926,728	556,476	574,552	(795,700)
Excess (deficiency) of revenues over (under) expenditures	250,800	625,650	486,324	412,796	273,470
OTHER FINANCING SOURCES (USES)					
Transfers out	(250,000)	(624,850)	(232,549)	(392,300)	-
Total other financing sources and uses	(250,000)	(624,850)	(232,549)	(392,300)	-
Net change in fund balances	800	800	253,775	20,496	273,470
Fund balances - beginning	60,000	60,765	60,765	314,540	-
Fund balances - ending	\$ 60,800	\$ 61,565	\$ 314,540	\$ 335,036	\$ 273,470

See notes to required supplementary information.

RSI – Required Supplementary Information (Notes)

Notes to Required Supplementary Information

Note A - Explanation of Differences between Revenues, Expenditures, and Other Financing Sources (Uses)
for Budgetary Basis and GAAP Basis - General Fund
For the Year Ended December 31, 2014

	General Fund	
	2013	2014
REVENUES		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 41,293,953	\$ 41,853,370
Reclassifications:		
Budgetary project revenues are reclassified to the General Fund for GAAP reporting	1,646,677	1,632,070
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>42,940,630</u>	<u>43,485,440</u>
EXPENDITURES		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	42,295,250	42,888,637
Reclassifications:		
Budgetary project expenditures are reclassified to the General Fund for GAAP reporting	1,646,677	1,632,070
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>43,941,927</u>	<u>44,520,707</u>
OTHER FINANCING SOURCES (USES)		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	572,678	567,524
Reclassifications:		
Budgetary transfers for revenue stabilization are reclassified to the General Fund for GAAP reporting	21,000	40,000
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>593,678</u>	<u>607,524</u>
Net change in fund balances as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ (407,619)</u>	<u>\$ (427,743)</u>

RSI – Required Supplementary Information

Firemen’s Pension Fund

The following is a schedule of contributions from the employer and other contributing entities for the Firemen’s Pension Fund:

Fiscal Year Ending	Actual Fire Insurance Premiums	Actual Employer Contributions	Total Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2014	\$77,558	\$96,555	\$174,113	\$106,478	164%
12/31/2013	70,970	109,400	180,370	122,244	148%
12/31/2012	63,205	113,269	176,474	122,244	144%
12/31/2011	66,376	112,994	179,370	115,324	155%
12/31/2010	64,392	178,392	242,784	115,324	211%
12/31/2009	60,473	178,978	239,451	150,624	159%
12/31/2008	63,419	98,128	161,547	150,624	107%

Schedule of funding progress for the Firemen’s Pension Fund (In Thousands):

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2014	\$ 819	\$ 2,012	\$ 1,193	41%	\$ -	0%
January 1, 2012	716	2,204	1,488	32%	-	0%
January 1, 2010	531	2,038	1,507	26%	-	0%

RSI – Required Supplementary Information

Other Postemployment Benefits (LEOFF 1 Retiree Medical)

Schedule of employer contributions for other postemployment benefits – LEOFF 1 Retiree Medical:

<u>Fiscal Year Ending</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution</u>	<u>Percentage of ARC Contributed</u>
December 31, 2014	\$535,618	\$1,006,385	53.2%
December 31, 2013	635,341	959,790	66.2%
December 31, 2012	867,294	955,089	90.8%
December 31, 2011	796,313	918,218	86.7%
December 31, 2010	767,717	933,497	82.2%
December 31, 2009	733,542	921,747	79.6%

Schedule of funding progress for other postemployment benefits – LEOFF 1 Retiree Medical:

<u>Valuation Date *</u>	<u>Actuarial Value of Assets (AAL)</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2014	\$ -	\$ 17,139,220	0%	\$107,764	15904.40%
January 1, 2011	-	14,742,851	0%	107,148	13659.33%
January 1, 2008	-	14,354,560	0%	202,912	7074.28%

*January 1, 2008 represented the first valuation for the City’s LEOFF 1 Retiree Medical OPEB plan.

Expenditures of Federal Awards
Year Ended December 31, 2014

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures
<u>U.S. Department of Agriculture Food and Nutrition Service</u>			
Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grant	10.598		\$ 2,066
<u>U.S. Office of Water, Environmental Protection Agency:</u>			
Passed through WA State Dept. of Ecology:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	L1300030	313,757
Capitalization Grants for Clean Water State Revolving Funds	66.458	L1100010	219,680
Capitalization Grants for Clean Water State Revolving Funds	66.458	L1100015	<u>42,400</u>
Total CFDA Number	66.458		575,837
<u>Office of Community Planning and Development,</u>			
<u>U.S. Department of Housing and Urban Development:</u>			
2013 Community Development Block Grant/Entitlement Grants	14.218	B-13-MC-53-0001	494,499
2014 Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53-0001	<u>134,919</u>
Total CFDA Number	14.218		629,418
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through City of Richland:			
HOME Program	14.239	M-13-DC-53-0202	239,805
HOME Program	14.239	M-14-DC-53-0202	<u>97,628</u>
Total CFDA Number	14.239		337,433
<u>U.S. Department of Justice</u>			
<u>Bureau of Justice Assistance, U.S. Department of Justice</u>			
Bulletproof Vest Partnership Program	16.607	2013BUBX13066077	4,661
<u>Bureau of Justice Assistance, U.S. Department of Justice</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJBX-0201	22,750
Passed through WA State Dept. of Commerce and Metro Drug Task Force: Edward Byrne Memorial Justice Assistance Grant Program	16.738	M14-31440-009	<u>16,897</u>
Total CFDA Number	16.738		39,647
<u>Criminal Division, U.S. Department of Justice</u>			
Equitable Sharing Program	16.922		58,573

The accompanying notes are an integral part of this statement.

Expenditures of Federal Awards
Year Ended December 31, 2014

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures
<u>U.S. Department of Justice</u>			
Drug Enforcement Administration - Tri Cities Task Force	16.999		11,442
U.S. Marshals Service - Fugitive Task Force	16.999	0324A A3403FWF4014R	19,942
Federal Bureau of Investigation - Tri City Violent Crime Task Force	16.999	281D-SE-C93759	<u>20,738</u>
Total CFDA Number	16.999		52,122
<u>National Highway Traffic Safety Administration, U.S. Department of Transportation</u>			
Passed-through WA State Traffic Safety Commission: State and Community Highway Safety	20.600		9,858
Passed-through WA State Traffic Safety Commission: Occupant Protection Incentive Grants	20.602		839
<u>Federal Highway Administration, U.S. Department of Transportation</u>			
Highway Planning and Construction Passed through Washington State Dept. of Transportation:			
	20.205	HSIP-3406(009)	121,317
	20.205	HSIP-3409(005)	727,604
	20.205	HSIP-000S(317)	61,535
	20.205	STPUL-9903(011)	23,426
	20.205	STPUL-9903(012)	379,135
	20.205	STPUL-3532(001)	39,660
	20.205	STPUL-3421(003)	1,262,755
	20.205	BHM0610(003)	<u>401,799</u>
Total CFDA Number	20.205		<u>3,017,231</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,727,685</u>

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

Notes to Expenditures of Federal Awards Schedule
Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This Schedule is prepared on the same basis of accounting as the City's financial statements. The City uses a modified accrual basis of accounting in all of the related Governmental funds and full accrual in the Proprietary funds.

NOTE 2 - PROGRAM COSTS

The amounts shown as current expenditures represent only the portion of expenses paid for with Federal grants. Actual program costs, including the City's portion, may be more than reported.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the Edward Byrne Memorial Justice Assistance Grant Programs is \$7,447 that was passed through to subrecipients that administered their own projects.

NOTE 4 - FEDERAL LOANS

The City of Kennewick was approved by the Washington State Department of Ecology to receive a pass-thru revolving loan from Environmental Protection Agency. Loan L1300030 was received for \$725,000 to provide for the design of the diffused aeration system at the Kennewick Wastewater Treatment Plant. Both the current and prior year loan is reported on the City of Kennewick's Schedule of Liabilities.

The City of Kennewick was approved by the Washington State Department of Ecology to receive a pass-thru revolving loan from Environmental Protection Agency. Loan L1100010 was received for \$503,675 to provide for the Wellhead Area and Protection Project. Both the current and prior year loan is reported on the City of Kennewick's Schedule of Liabilities.

The City of Kennewick was approved by the Washington State Department of Ecology to receive a pass-thru revolving loan from Environmental Protection Agency. Loan L1100015 was received for \$390,000 to provide for the development the Low Impact Development Manual and Low Impact Development Demonstration Project. Both the current and prior year loan is reported on the City of Kennewick's Schedule of Liabilities.

The loans listed above do not have continuing compliance requirements and are considered awards for purposes of the SEFA. As a result, current year activity is all that is reported.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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