



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Kennewick

Benton County

For the period January 1, 2015 through December 31, 2015

Published July 14, 2016

Report No. 1017081





Washington State Auditor's Office

July 14, 2016

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,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	6
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance	9
Independent Auditor’s Report On Financial Statements	12
Financial Section.....	16
About The State Auditor’s Office.....	107

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Kennewick
Benton County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Kennewick are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of 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 in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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, 2015 through December 31, 2015**

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, 2015, 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 28, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The prior year comparative information has been derived from the City's 2014 basic financial statements, on which we issued our report dated June 26, 2015.

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.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in black ink on a white background.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Kennewick
Benton County
January 1, 2015 through December 31, 2015**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

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 the Uniform Guidance, 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 the Uniform Guidance. 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 6, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kennewick Benton County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

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 aggregate remaining fund information of the City of Kennewick, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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, 2014, from which such partial information was derived. We have previously audited the City's 2014 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 26, 2015. In our opinion, the partial comparative information presented herein as of and for

the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

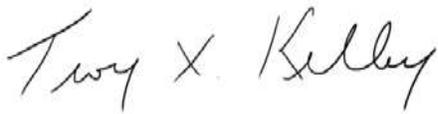
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 35, pension plan information on pages 99 through 100, information on postemployment benefits other than pensions on page 101, and budgetary comparison information on pages 102 through 104 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 28, 2016 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 28, 2016

FINANCIAL SECTION

**City of Kennewick
Benton County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position – Governmental Activities – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2015

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Reconciliation of the Statement of Net Position – Proprietary Funds to the
Government-Wide Statement of Net Position – Business-Type Activities – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2015

Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Net
Position of Proprietary Funds to the Statements of Activities – Business – Type
Activities – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Fiduciary Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Cost Sharing Employer Pension Plans – Schedules of Proportionate Share of the Net
Pension Liability – 2015

Cost Sharing Employer Pension Plans – Schedules of Employer Contributions – 2015

Other Postemployment Benefits (LEOFF 1 Retiree Medical) – 2015
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget to Actual –
General Fund – 2015
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
– Community Development fund – 2015
Notes to Required Supplementary Information – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

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, 2015. 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, 2015 by \$357,001,249 (*net position*). Of this amount, \$7,652,683 (*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, 2015 has been identified by City Council for projects that were in progress or planned at the end of 2015, but will not be completed until 2016 or beyond.
- ◆ The City's total net position increased by \$17,501,242 in 2015. 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 \$35,972,586 greater than the program revenues generated for governmental activities. Program revenues exceeded expenses by \$3,645,857 for business-type activities.
- ◆ As of December 31, 2015, the City of Kennewick's governmental funds reported combined ending fund balances of \$24,767,877, an increase of \$11,105,312 in comparison with the prior year. Approximately 11 percent of this total amount, \$2,631,063, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council's intent for a specific purpose (\$9,129,413), committed for specific purposes pursuant to constraints imposed by a formal action of the City's highest level of decision making authority (\$5,278,985), or restricted externally for a specific purpose (\$7,728,416).
- ◆ As of December 31, 2015, unassigned fund balance for the general fund was \$2,631,063, or 5.6 percent of total reported general fund expenditures and 5.4 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. Committed fund balance reported in the City's general fund was \$2,715,500 as of December 31, 2015. 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 11 percent of actual reported operating fund expenditures for 2015. And finally, restricted fund balance in the general fund was \$213,162 as of December 31, 2015, which was associated with a donation received for its senior center facility.
- ◆ The City of Kennewick's total net capital assets increased by \$4,821,628 during the year ended December 31, 2015. 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 increased by \$2,245,264 during the year ended December 31, 2015. Within governmental activities, total outstanding debt increased by \$4,873,521, which reflected the issuance of \$3,255,000 in taxable general obligation bonds during the year for land acquisitions and \$4,085,000 in tax-exempt general obligation bonds issued to fund the construction of the City's fifth fire station. Additionally, the City issued refunding bonds with a par

value of \$5,915,000 during 2015 to advance refund the outstanding balance of a 2006 bond issue at a net present value savings of \$483,000. Within business-type activities, total outstanding debt decreased by \$2,628,257, which reflected the addition of \$407,523 for water and stormwater infrastructure projects, net of scheduled principal payments on the utility's outstanding debt.

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 fifteen 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 are being reported as 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 consists of data and statistics related to the City's four cost sharing pension plans, the City of Kennewick's progress in funding its obligation to provide 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, and a budgetary comparison for the general fund and major special revenue funds to demonstrate compliance with their respective budgets.

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, 2015, the City of Kennewick's assets exceeded liabilities by \$357,001,249. The following is a condensed version of the City's statement of net position for the years ended December 31, 2015 and 2014, respectively.

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 \$50,405,808. 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.

City of Kennewick
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current assets	\$ 41,859,668	\$ 35,668,799	\$ 1,537,589	\$ 1,045,756	\$ 43,397,257	\$ 36,714,555
Capital assets	209,529,131	207,033,391	166,481,761	164,155,873	376,010,892	371,189,264
Other noncurrent assets	17,008,604	4,923,795	3,403,694	2,116,394	20,412,298	7,040,189
Total assets	<u>268,397,403</u>	<u>247,625,985</u>	<u>171,423,044</u>	<u>167,318,023</u>	<u>439,820,447</u>	<u>414,944,008</u>
Deferred Outflows of Resources						
Deferred charge on refunding	663,350	403,391	-	-	663,350	403,391
Deferred outflows on pension	1,881,925	-	529,375	-	2,411,300	-
Total deferred outflows of resources	<u>2,545,275</u>	<u>403,391</u>	<u>529,375</u>	<u>-</u>	<u>3,074,650</u>	<u>403,391</u>
Total assets and deferred outflows of resources	<u>\$ 270,942,678</u>	<u>\$ 248,029,376</u>	<u>\$ 171,952,419</u>	<u>\$ 167,318,023</u>	<u>\$ 442,895,097</u>	<u>\$ 415,347,399</u>
Liabilities						
Current liabilities	\$ 7,178,075	\$ 7,818,805	\$ 4,899,201	\$ 5,319,378	\$ 12,077,276	\$ 13,138,183
Noncurrent liabilities	43,733,707	29,608,540	26,130,170	25,196,755	69,863,877	54,805,295
Total liabilities	<u>50,911,782</u>	<u>37,427,345</u>	<u>31,029,371</u>	<u>30,516,133</u>	<u>81,941,153</u>	<u>67,943,478</u>
Deferred Inflows of Resources						
Deferred inflows on pension	3,128,542	-	824,153	-	3,952,695	-
Total deferred inflows of resources	<u>3,128,542</u>	<u>-</u>	<u>824,153</u>	<u>-</u>	<u>3,952,695</u>	<u>-</u>
Net Position						
Net investment in capital assets	183,090,473	179,385,930	142,514,611	137,560,465	325,605,084	316,946,395
Restricted	20,339,788	8,287,063	3,403,694	2,116,394	23,743,482	10,403,457
Unrestricted (deficit)	13,472,093	22,929,038	(5,819,410)	(2,874,969)	7,652,683	20,054,069
Total net position	<u>216,902,354</u>	<u>210,602,031</u>	<u>140,098,895</u>	<u>136,801,890</u>	<u>357,001,249</u>	<u>347,403,921</u>
Total liabilities and net position	<u>\$ 270,942,678</u>	<u>\$ 248,029,376</u>	<u>\$ 171,952,419</u>	<u>\$ 167,318,023</u>	<u>\$ 442,895,097</u>	<u>\$ 415,347,399</u>

An additional portion of the City of Kennewick's net position (7 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 \$7,652,683 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, 2015 has been identified by City Council for future projects and other needs of the City in the future.

As of December 31, 2015, 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 generally accepted accounting principles, the outstanding balance of these interfund loans, which is \$2,489,339, 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 \$17,501,242 overall for the year ended December 31, 2015. 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.

City of Kennewick
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 6,707,105	\$ 6,691,952	\$ 28,535,411	\$ 27,360,762	\$ 35,242,516	\$ 34,052,714
Operating grants and contributions	5,723,238	5,265,254	91,745	-	5,814,983	5,265,254
Capital grants and contributions	7,502,813	9,868,925	4,762,394	3,578,988	12,265,207	13,447,913
General revenues:						
Property taxes	12,052,267	11,844,378	-	-	12,052,267	11,844,378
Sales taxes	21,470,287	17,536,255	-	-	21,470,287	17,536,255
Utility taxes	11,127,051	10,759,476	-	-	11,127,051	10,759,476
Real estate excise tax	2,736,131	1,610,706	-	-	2,736,131	1,610,706
Gambling excise tax	696,577	746,328	-	-	696,577	746,328
Lodging tax	1,018,734	914,197	-	-	1,018,734	914,197
Other taxes	422,703	423,926	-	-	422,703	423,926
Gain on sale of capital assets	-	593,125	-	-	-	593,125
Unrestricted investment earnings	225,621	163,436	78,600	79,625	304,221	243,061
Total revenues	<u>69,682,527</u>	<u>66,417,958</u>	<u>33,468,150</u>	<u>31,019,375</u>	<u>103,150,677</u>	<u>97,437,333</u>
Expenses:						
General government	7,995,740	9,159,699	-	-	7,995,740	9,159,699
Public safety	27,870,812	29,690,920	-	-	27,870,812	29,690,920
Transportation	9,449,339	8,838,502	-	-	9,449,339	8,838,502
Physical environment	9,618	469,205	-	-	9,618	469,205
Economic environment	2,439,483	2,126,169	-	-	2,439,483	2,126,169
Social services	57,584	50,310	-	-	57,584	50,310
Culture and recreation	6,791,723	6,857,438	-	-	6,791,723	6,857,438
Interest on long-term debt	1,291,443	1,294,850	-	-	1,291,443	1,294,850
Water and Sewer	-	-	16,919,995	16,139,077	16,919,995	16,139,077
Medical Services	-	-	5,789,698	4,423,588	5,789,698	4,423,588
Building Safety	-	-	1,189,976	1,248,757	1,189,976	1,248,757
Stormwater	-	-	1,676,069	1,547,131	1,676,069	1,547,131
Columbia Park Golf Course	-	-	308,386	302,752	308,386	302,752
Coliseum	-	-	3,859,569	3,806,441	3,859,569	3,806,441
Total expenses	<u>55,905,742</u>	<u>58,487,093</u>	<u>29,743,693</u>	<u>27,467,746</u>	<u>85,649,435</u>	<u>85,954,839</u>
Increase in net position before transfers						
	13,776,785	7,930,865	3,724,457	3,551,629	17,501,242	11,482,494
Transfers	(2,294,778)	(1,054,030)	2,294,778	1,054,030	-	-
Increase (decrease) in net position	<u>11,482,007</u>	<u>6,876,835</u>	<u>6,019,235</u>	<u>4,605,659</u>	<u>17,501,242</u>	<u>11,482,494</u>
Net position - beginning, as restated	205,420,347	203,725,196	134,079,660	132,196,231	339,500,007	335,921,427
Net position - ending	<u>\$ 216,902,354</u>	<u>\$ 210,602,031</u>	<u>\$ 140,098,895</u>	<u>\$ 136,801,890</u>	<u>\$ 357,001,249</u>	<u>\$ 347,403,921</u>

Governmental activities increased the City of Kennewick's net position by \$11,482,007 during the year ended December 31, 2015, which equated to 66 percent of the overall increase of \$17,501,242 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 decreased by approximately \$1.9 million overall during 2015, which represented a decrease of 9 percent. The largest factor in this overall decrease was a reduction in program revenue from capital grants and contributions within the City's transportation program. Capital grants and contributions decreased by just under \$2.4 million in 2015 when compared to 2014, due to significant federal and state grant revenue associated with large transportation projects in the City during 2014 including the extension of Olympia Street from State Route 397 to 27th Street and Steptoe phase 2, which was the second phase of a project that will connect Steptoe Street to Bob Olson Parkway (formerly Hildebrand Boulevard) in the near future and provide a new roadway connection 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.
- ◆ Tax revenues are the largest source of revenue within governmental activities, making up approximately 71 percent of total revenues. On a full accrual basis, tax revenues increased by 13 percent in 2015 when compared to 2014, which equates to a total increase of approximately \$5.7

million. The most significant components of this overall increase were increases in sales and real estate excise tax revenues.

Sales tax revenue, which is the City's largest single source of tax revenue, increased by 22 percent when compared to 2014, or approximately \$3.9 million. The largest factor in this increase was the addition of a voter-approved 0.3 percent sales tax within Benton County dedicated towards public safety programs that became effective in January of 2015. Under state law, the proceeds from this new voter-approved sales tax are split between the County and all cities within the County on a 60/40 basis, with the portion allocated to cities then distributed based on population. Under this formula, the City of Kennewick receives approximately half of the proceeds allocated to cities in Benton County, or roughly 20 percent of the total amount received, which equated to just under \$2.3 million for 2015. Additionally, the City's non-voted sales tax revenue increased by 9 percent in 2015, which was the result of low unemployment in the region, growth in both residential and commercial construction, and continued growth in the City's base sales and use tax, as evidenced by a significant majority of the City's top fifty taxpayers experiencing growth in their taxable sales activity for the year.

Real estate excise tax revenue, which is derived from sales of real estate and must be used primarily for capital purposes (projects) under state law, increased by 70 percent in 2015, or approximately \$1.1 million. The increase experienced from this revenue source in 2015 is directly related to the significant new residential and commercial growth the City experienced during the year. Due to the fact that this tax revenue source is tied to real estate activity, it can be highly volatile and difficult to predict.

- ◆ On an accrual basis, expenses within governmental activities decreased by approximately \$2.6 million in 2015 relative to 2014, which equates to a decrease of approximately 4 percent. The single largest factor in this net decrease was a reduction in personnel expenses, which was primarily attributable to three main factors.

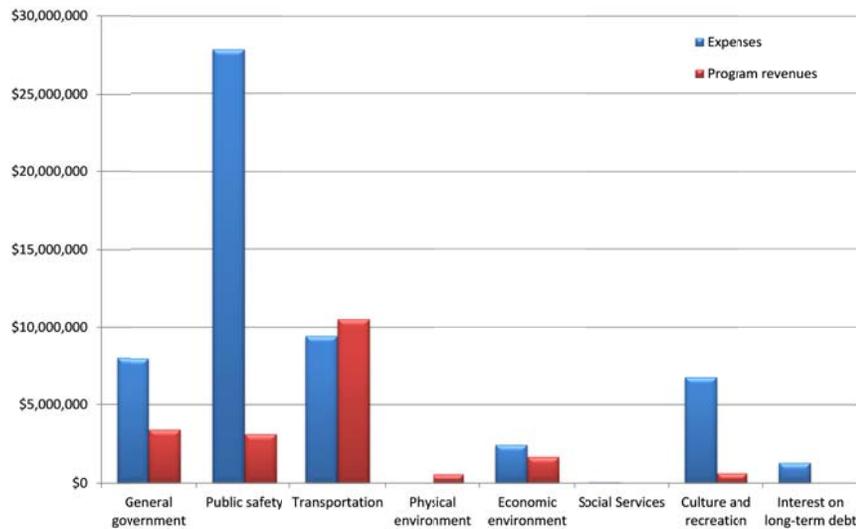
First, the City reallocated personnel costs for 9.71 full-time equivalent positions from governmental activities to its medical services business-type activity beginning in 2015 after completing a cost of service study for its ambulance program in 2014. This study concluded that the City's governmental activities were providing an implicit subsidy to the medical services business-type activity based on the actual composition of the Fire Department's calls for service, which showed that 77 percent of all calls for service were related to the City's ambulance program. At the same time the City reallocated these personnel costs, it also increased the transfer from governmental activities to the medical services business-type activity for the same amount, with the intent that these changes would be neutral financially to both activities. As part of the adopted budget for the 2015/2016 biennium, the Kennewick City Council approved a \$1 increase to the monthly ambulance availability charge for both residential and commercial customers in both 2015 and 2016, with the intent to bring the monthly charge more in line with neighboring jurisdictions and reduce the operating transfer required from governmental activities to support the medical services business-type activity.

Second, the City also made a structural change in 2015 to reallocate the personnel expenses for 3 meter reader positions from governmental activities to the water and sewer business-type activity. Historically, the personnel costs associated with these positions were paid from within governmental activities and then were reimbursed by the water and sewer business-type activity. Beginning in 2015, these personnel expenses were paid directly from the water and sewer business-type activity and the previous reimbursement paid to governmental activities was eliminated.

Lastly, the City estimates that it averaged roughly 2 more vacant positions per month in 2015 than it did during 2014 within governmental activities. Although this was not a deliberate strategy to reduce personnel expenses, the City works diligently to ensure that it hires the right individual when filling all vacant positions, which can lengthen the hiring process but is much more effective over the long-term.

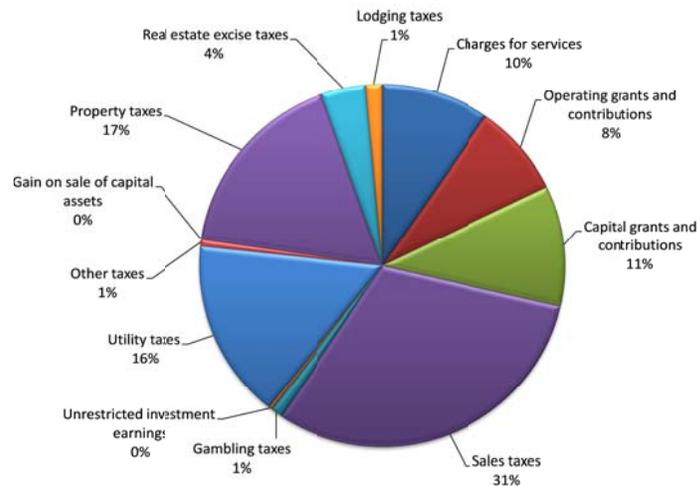
The following chart illustrates the surplus or net subsidy required for different governmental programs. The illustration clearly shows that most governmental programs were reliant on tax revenues to some degree in 2015 to cover the shortfall of program revenues available to fund the costs of providing the service. The slight excess of program revenues over expenses for the transportation function in 2015 was attributable to state and federal grant funding for street construction projects. However, it should be noted that the cost of these projects are capitalized on the government-wide statements. Over time, these assets will be depreciated, which will significantly add to the expenses reported for this function. Ultimately, general taxes will likely be required to subsidize the ongoing maintenance and operations of the City's transportation function.

Expenses and Program Revenues - Governmental Activities

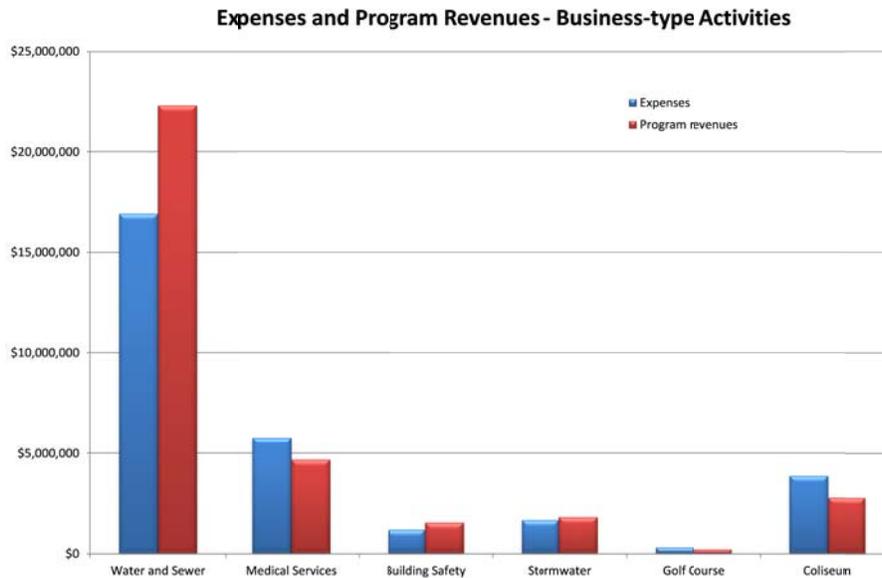


The following graph illustrates different components of the City of Kennewick's revenues from governmental activities. As the graph illustrates, taxes are the major revenue source, making up approximately 71 percent of the total revenues that support governmental activities. Program revenues, which include 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 the remaining 29 percent of total revenues.

Revenue by Source - Governmental Activities



Business-type activities contributed to the City of Kennewick’s net position by \$6,019,235 for the period ended December 31, 2015, which equated to 34 percent of the overall increase of \$17,501,242 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 4 percent in 2015. 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 2015 as well, which was attributable to a rate increase of 1.5 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 water consumption due to a statewide drought in the region that resulted in restrictions on the use of irrigation water and led to an increase in customers utilizing potable water to irrigate their landscaping.

Within the medical services business-type activity, revenue derived from charges for services increased by 14 percent overall during 2015. As discussed earlier in this report, the City implemented a \$1 increase to its monthly ambulance availability charge that is assessed to all residential, multi-family and commercial units in the City. This rate change was the primary factor in the overall revenue increase experienced for this activity in 2015.

Charges for services in the building safety business-type activity decreased by 5 percent in 2015 when compared to 2014 as a result of a 2 percent decrease in the number of building permits. However, it is noteworthy that building permit revenue in 2014 was at the highest amount recorded in history for the City.

Program revenue from the category of charges for services in the City’s stormwater business-type activity consist primarily of the revenue derived from a monthly stormwater charge assessed to all residential and commercial units in the City. Commercial units are also assessed a surcharge based on the number of parking stalls located at their business. In 2015, revenue from the monthly stormwater charge increased by 2.5 percent, which was the result of a rate increase of 1.5 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 10 percent in 2015 due to a 13 percent increase in the number of rounds played at the course during the year. The overall increase in the number of rounds played at the course was the direct result of the introduction of foot golf at the facility starting in the spring of 2015.

Finally, revenues generated from charges for services increased by 4 percent within the coliseum business-type activity in 2015, which was attributable to a minor increase in the number of events held at the facilities and overall attendance at those events.

- ◆ Capital grants and contributions for business-type activities increased by approximately 33 percent in 2015, or \$1.2 million. 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. In 2015, this category of program revenue also included \$546,205 for the value of sewer system infrastructure contributed to the water and sewer business-type activity through a local improvement district in the southeast area of the City.
- ◆ Business-type expenses increased by approximately \$2.3 million overall in 2015 when compared to 2014, which equates to an increase of 8 percent.

Expenses for the City's water and sewer business-type activity increased by approximately \$781,000 in 2015, which equated to an increase of 5 percent. This change was almost entirely attributable to a one-time payment made during the year for a permanent sewer easement that had previously been leased. The final agreement for this easement also settled a dispute over the amount owed by the water and sewer business-type activity for past lease payments. Without this one-time payment, expenses within this activity would have actually declined by just under 2 percent in 2015.

Expenses for the medical services business-type activity increased during 2015 by approximately \$1.4 million, or 31 percent. As described earlier in this report under the discussion of expenses for governmental activities, the City reallocated personnel costs for 9.71 full-time equivalent positions from governmental activities to its medical services business-type activity in 2015 after completing a cost of service study for its ambulance program. This reallocation of personnel expenses was the primary factor in the overall increase in expenses within the medical services business-type activity for the year.

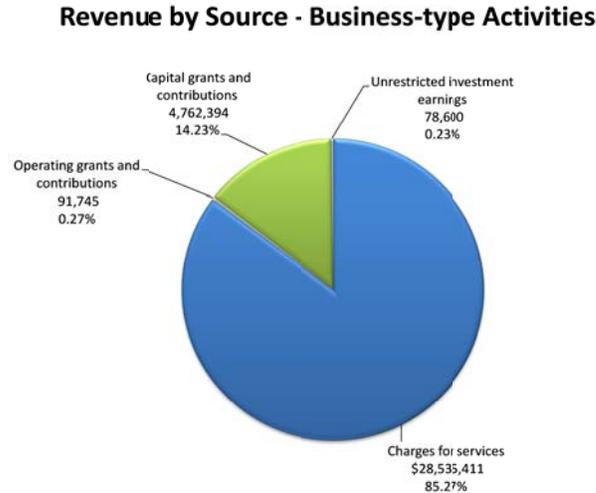
Expenses for the building safety business-type activity decreased by approximately \$59,000, or 5 percent, in 2015. This change was partially attributable to a minor decrease in personnel costs for the activity for the year due to vacant positions as well as a small decrease in expenses for contracted services.

Expenses of the stormwater business-type activity increased by approximately \$129,000, or 8 percent, in 2015. This overall change was primarily attributable to increases in maintenance and operating costs of the activity, including personnel expenses and other equipment maintenance expenses associated with the City's compliance with its state stormwater capacity permit.

Expenses of the golf course business-type activity increased by approximately \$6,000, or 2 percent, in 2015. This overall change was attributable to a moderate increase in maintenance expenses for the course related to equipment that required significant repairs during the year.

Lastly, expenses for the coliseum business-type activity increased by approximately \$53,000, or 1 percent, during 2015. This modest increase was primarily the result of an increase in variable expenses associated with an increase in events held at the facilities during the year.

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 85 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, 2015, the City of Kennewick’s governmental funds reported combined ending fund balances of \$24,767,877, an increase of \$11,105,312 in comparison with the prior year. Approximately 11 percent of this total amount, \$2,631,063, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council’s intent for a specific purpose (\$9,129,413), committed for specific purposes pursuant to constraints imposed by a formal action of the City’s highest level of decision making authority (\$5,278,985), or restricted externally for a specific purpose (\$7,728,416).

The general fund is the chief operating fund of the City of Kennewick. As of December 31, 2015, unassigned fund balance in the general fund was \$2,631,063. A common measure of the general fund’s liquidity is to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 5.6 percent of total reported general fund expenditures for the year ended December 31, 2015, as compared to 5.2 percent for the year ended December 31, 2014. 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 had a balance of \$2.72 million at the conclusion of 2015. The general fund also had restricted fund balance of \$213,162 at the conclusion of 2015, which was associated with a donation received by the City that is restricted for improvements to its senior center facility.

The total fund balances reported for the City of Kennewick's general fund increased by \$420,541 during 2015. 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 76 percent of the fund's total sources of revenue in 2015. In 2015, tax revenues reported in the general fund increased by approximately 4 percent overall when compared to 2014. This overall increase was attributable to increases in reported revenue from property, sales and utility taxes, which were partially offset by a decrease in revenue reported in the general fund from gambling taxes.

Property taxes allocated to the general fund increased by roughly 4 percent in 2015, which was primarily attributable to growth that occurred in the City during 2014 and increased the tax rolls for 2015. The City added \$88 million to its assessed value for the 2014 levy from new construction and annexation. Additionally, the Kennewick City Council elected to increase the City's base property tax levy by 1 percent for 2015, 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 3 percent.

Sales and use tax revenues reported in the general fund increased by 7.5 percent in 2015 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 9 percent in 2015. As reported earlier under the discussion of governmental activities tax revenues, the increase in regular and optional sales tax experienced in 2015 was the result of low unemployment in the region, growth in both residential and commercial construction, and continued growth in the City's base sales and use tax, as evidenced by a significant majority of the City's top fifty taxpayers experiencing growth in their taxable sales activity for the year.

Utility tax revenues increased by less than 1 percent overall in 2015 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 2015, the City experienced increases from each of these sources, with the exception of electric and telephone utility taxes, which are the two largest sources of utility tax for the City.

Utility tax generated from the sale of the City's water and sewer services increased by 3.6 percent in 2015, which was the result of two main factors. First, the City implemented a 1.5 percent increase to water and sewer rates in 2015 in accordance with its policy to modify rates annually based on the previous year's change in the consumer price index (CPI). Additionally, the City experienced an increase in water rate revenue subject to utility tax during 2015 as the result of an increase in water consumption, which was attributable to customers utilizing potable water to irrigate their landscaping after restrictions were put in place by the Kennewick Irrigation District (KID) on the use of irrigation water during the late spring and summer months due to a statewide drought.

Utility tax generated from the sale of natural gas increased by 1.7 percent in 2015, primarily as the result of a 5.6 percent rate increase implemented by Cascade Natural Gas in November of 2014. The impact of this rate increase was partially offset by a reduction in natural gas consumption early in 2015 due to unusually mild weather conditions.

The City receives utility tax for garbage services from Waste Management as they provide these services to Kennewick's citizens under a franchise agreement with the City. Utility tax receipts from garbage services increased by 7.2 percent in 2015, which reflects growth in Waste Management'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.

Finally, utility tax generated from cable television services increased by 2.2 percent in 2015, primarily as a result of rate increases implemented by the local cable provider.

The increases in utility tax revenue for the City in 2015 outlined above were almost entirely offset by decreases in tax revenue from the City's two largest sources of utility tax, which are electric and telephone. Utility tax revenue received from the sale of electricity decreased by 2.4 percent in 2015, despite an average rate increase of 3.9 percent implemented by Benton PUD in September. The overall decrease in electric utility tax was attributable to very mild weather conditions during the first 4 months of the year that reduced overall consumption for the year.

Utility tax revenue derived from telephone services decreased by 1.6 percent in 2015. However, this result is somewhat misleading due to a one-time payment the City received from a telephone provider during the year for back taxes owed from 2010 through May of 2015. Without this one-time payment, telephone utility tax revenue would have declined by approximately 10 percent in 2015. This result is attributable to many of the same factors that have led to similar declines from this revenue source over the last several years, 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 that reduces taxable revenue for telephone 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.

- ◆ Expenditures reported in the general fund increased by approximately \$584,000, or slightly more than 1 percent, in 2015. Major factors for this increase follow.

Personnel expenditures represent over 68 percent of total expenditures within the general fund and are by far the most significant categorical expenditure of the fund. In 2015, personnel expenditures declined by approximately \$801,000, or 2.4 percent. As outlined earlier in this report within the analysis of the statement of activities for governmental activities, this decline was attributable to three primary factors.

First, the City reallocated personnel costs for 9.71 full-time equivalent positions from the general fund to its medical services fund after completing a cost of service study for its ambulance program. This study concluded that the City's general fund was providing an implicit subsidy to the medical services fund based on the actual composition of the Fire Department's calls for service, which demonstrated that 77 percent of all calls for service were related to the City's ambulance program. At the same time the City reallocated these personnel costs, it also increased the transfer from the general fund to the medical services fund by the same amount, with the intent that the reallocation of personnel costs would be budget neutral for both funds. Then, as part of the adopted budget for the 2015/2016 biennium, the Kennewick City Council approved a \$1 increase to the monthly ambulance availability charge for both residential and commercial customers in both 2015 and 2016, with the intent to bring the monthly charge more in line with neighboring jurisdictions and reduce the operating transfer required from the general fund to support the medical services fund.

Second, the City also made a structural change in 2015 to reallocate the personnel expenditures for 3 meter reader positions from the general fund to the water and sewer fund. Historically, the personnel costs associated with these positions were paid by the general fund and then were reimbursed by the water and sewer fund. Beginning in 2015, these personnel expenditures were paid directly from the water and sewer fund and the previous reimbursement paid to the general fund was eliminated.

Lastly, the City estimates that it averaged roughly 2 more vacant positions per month in 2015 than it did during 2014 within its general fund. Although this was not a deliberate strategy to reduce personnel expenditures, the City works diligently to ensure that it hires the right individual when filling all vacant positions, which can lengthen the hiring process but is much more effective over the long-term.

Expenditures for intergovernmental services decreased by 2.9 percent in 2015, or approximately \$161,000. This overall decrease was the result of several small items, but the primary reason for this decline was a \$130,000 reduction in the City's expenditures for jail services during 2015. This reduction was directly associated with a drop in the City's bed days for the year (utilization of the facility), which decreased by approximately 10 percent in 2015 when compared to 2014.

Transfers out of the general fund increased by approximately \$1,727,000 in 2015, as a result of three primary factors.

Transfers made to the capital improvement fund from the general fund were \$1,000,000 higher in 2015 than 2014. In 2014, a decision was made to transfer only \$500,000 of the normal \$1,000,000 transferred each year from the general fund to the capital improvement fund to ensure adequate funding for City Council's priority capital projects. This decision was made with the understanding that the additional \$500,000 capital transfer would be made up in 2015. As a result, \$1,500,000 was transferred to the capital improvement fund from the general fund in 2015.

As outlined earlier in this section, the City made a structural change within its general fund starting in 2015 to properly reallocate firefighter paramedic positions between the general and medical services funds after completing a cost of service study that indicated that the ambulance utility was receiving an implicit subsidy from the general fund based on the actual composition of calls for service in the Fire Department. As a result, the City reallocated the personnel costs of 9.71 full-time equivalent positions from the general fund to the medical services fund and implemented an operating transfer to more clearly identify the general fund's true contribution towards this program. As a result of these changes, the general fund transferred \$1,350,000 to the medical services fund in 2015 after making no transfers to the fund in the previous year.

Finally, transfers out from the general fund to the risk management fund decreased by \$575,000 in 2015, which reflects additional transfers that were required in 2014 to replenish reserve levels in the risk management fund due to several one-time items that were paid from the fund during the course of the 2013/2014 biennium.

The community development fund has a total fund balance of \$255,720, all of which is restricted for grant related projects. Total fund balance decreased by \$79,316 for the year ended December 31, 2015 in the fund. Although the purpose of the community development fund does not necessarily dictate that the fund should accumulate or even maintain a large fund balance, this decrease may be interpreted to indicate a moderate decline to the community development fund's overall financial condition from the perspective that it has less fund balance available to provide funding for program activities.

The capital improvement fund has a total fund balance of \$17,133,427, of which \$6,301,379 is restricted for capital projects, \$1,402,450 is committed for advances to other funds in previous years and \$1,160,996 is committed to pay for park improvements. Overall fund balance increased by \$9,708,043 in 2015. A significant portion of this increase was attributable to proceeds remaining from two bond issues the City completed during 2015 for land acquisitions and construction of a fifth fire station in the City. Assigned fund balance in the capital improvement fund, which represents fund balance available for the purpose of the fund, increased by \$3,752,327 during 2015, which is indicative of the fund's financial condition improving during the year. However, it should be noted that there are multiple large capital projects scheduled for 2016 that will draw down this fund balance significantly.

The urban arterial fund has a total fund balance of \$802,720, all of which is assigned fund balance, or fund balance available for the purpose of the fund. For the year ended December 31, 2015, the urban arterial fund's fund balance decreased by \$228,249. 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 the

use of the city match previously accumulated in the fund for capital projects that were completed or in progress during 2015.

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 \$149,013,919 as of December 31, 2015, which was an increase of \$6,798,396 for the year. Of the total net position for enterprise funds, \$142,571,903 represented a net investment in capital assets and \$3,403,694 was restricted for capital projects, debt service and pension obligations, leaving unrestricted net position of \$3,038,322. 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 positions of \$129,264,445, \$5,865,565 and \$1,127,679, respectively, as of December 31, 2015. The water and sewer fund's net position consists of \$122,232,783 in net investment in capital assets, \$2,290,693 in restricted net position for capital projects and debt service, and \$4,740,969 in unrestricted net position. The coliseum fund's net position consists of \$8,569,006 in net investment in capital assets and a deficit of \$2,703,441 in unrestricted net position. And finally, the medical services fund's net position consists of \$78,156 in net investment in capital assets, \$1,079,626 in restricted net position for pension obligations, and a deficit of \$30,103 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, 2015, marks the completion of the first year of the City's 2015/2016 biennial budget cycle. Two budget adjustments were made to the City's budget during 2015. 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 2015:

- ◆ An increase of approximately \$194,000 in personnel and equipment costs associated with a reorganization of the Fire Department and the implementation of a fire inspection program in 2015.
- ◆ An increase of \$500,000 to carry forward the balance of the 2013/2014 budgeted transfer from the City's General Fund to its Capital Improvement Fund to provide funding for City Council's priority capital projects. Under Kennewick City Council's budget policies, the City evaluates making a \$1 million transfer annually from the General Fund to the Capital Improvement Fund to provide funding for priority capital projects. In 2014, the City only transferred \$500,000 of this amount, with the commitment to carry forward the remaining \$500,000 to the 2015/2016 biennial budget.
- ◆ An increase of approximately \$150,000 for the estimated increase in gas tax revenue that the City will receive during its 2015/2016 biennium as a result of a 16-year, \$16.1 billion statewide transportation package approved by the Washington State Legislature in 2015.
- ◆ An increase of approximately \$170,600 in projected telephone utility tax resulting from the completion of an audit of a local telephone provider in 2015.

- ◆ An increase of \$150,600 in donation revenue as the result of a significant donation received by the City for its senior center facility. As the proceeds of this donation are restricted for improvements at this facility, a corresponding capital expenditure for this same amount was budgeted as well.
- ◆ An increase of \$98,900 to appropriate for a newly authorized position in the City's Parks & Recreation Department.

At the mid-point of the City's 2015/2016 biennium, general fund revenues were 49.3 percent of the adjusted biennial budget. Actual expenditures in the general fund for the biennium were 48.9 percent of the adjusted biennial budget.

The City's general fund had an unassigned fund balance of \$2,631,063 as of December 31, 2015, which was higher than the budgeted ending fund balance for the 2015/2016 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 12 percent of 2015 expenditures within the City's general and street funds.

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, 2015, amounts to approximately \$376,011,000 (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure such as roads and bridges, equipment, and construction in progress.

As the following Schedule illustrates, the City of Kennewick's net capital assets increased by just over 1 percent for the year (a 1 percent increase in both governmental activities and business-type activities).

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

	Governmental Activities		Business-type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 88,807	\$ 85,660	\$ 2,988	\$ 2,988	\$ 91,795	\$ 88,648
Buildings	29,176	30,017	151,958	143,310	181,134	173,327
Improvements other than buildings	12,185	12,936	-	-	12,185	12,936
Infrastructure	57,064	58,102	-	-	57,064	58,102
Equipment	7,307	8,239	3,104	3,282	10,411	11,521
Construction in progress	14,990	12,079	8,403	14,547	23,393	26,626
Intangibles	-	-	29	29	29	29
Total capital assets	\$ 209,529	\$ 207,033	\$ 166,482	\$ 164,156	\$ 376,011	\$ 371,189

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

- ◆ A \$5.3 million street construction project to complete the final phase of Steptoe Street from 4th Avenue to 10th avenue was completed, which is an important piece of the City's plan to complete a roadway network from Highway 240 near the northern border of the City to State Route 395 in the south.
- ◆ A variety of other major street construction projects across the City were in progress at the close of the year, including a \$6 million project to construct Hildebrand Boulevard from Steptoe Street to the existing Hildebrand Boulevard at the intersection of Sherman Street, which will be the final roadway connection needed to link the City's retail district to the southern growth area of the City, and a \$3

million federally funded project to widen Edison Street from Clearwater Avenue to Canal Drive. Construction in progress for these projects and various other street projects was approximately \$3.5 million as of December 31, 2015.

- ◆ 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 2015. Additionally, approximately \$528,000 was expended during the year to complete a new reservoir in zone 4 of the City for which construction began during the City’s previous biennium.

Long-term debt:

The City of Kennewick’s total debt increased by \$2,245,264 (4 percent) during the year ended December 31, 2015. As outlined earlier in this report, debt within governmental activities increased by \$4,873,521 in 2015, which was attributable to the City issuing \$3,255,000 in taxable general obligation bonds in 2015 for land acquisition and \$4,085,000 in tax-exempt general obligation bonds to fund the construction of the City’s fifth fire station. Additionally, the City issued \$5,915,000 in refunding bonds to advance refund the outstanding balance of a 2006 bond issue at a net present value savings of \$483,000. Within business-type activities, total debt decreased by \$2,628,257 based primarily on scheduled payments on the City’s existing debt obligations. Approximately \$407,000 in new debt was also added within business-type activities in the form of state loans for water and stormwater infrastructure projects.

City of Kennewick
Outstanding Debt
As of December 31,

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 29,115,000	\$ 23,820,000	\$ -	\$ -	\$ 29,115,000	\$ 23,820,000
Notes and loans	1,839,093	2,288,214	23,967,151	26,595,408	25,806,244	28,883,622
Capital leases	967,936	1,305,148	-	-	967,936	1,305,148
Special assessments	450,703	85,849	-	-	450,703	85,849
	<u>\$ 32,372,732</u>	<u>\$ 27,499,211</u>	<u>\$ 23,967,151</u>	<u>\$ 26,595,408</u>	<u>\$ 56,339,883</u>	<u>\$ 54,094,619</u>

During the process of issuing bonds in 2015, the City underwent a rating review from Standard & Poor’s and received affirmation of its existing 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, 2015, the City had approximately \$53 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 (KPF) to loan the KPF 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, 2015, the balance outstanding of the KPF’s debt was \$11,510,000.

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, 2015 marks the mid-point of the City's 2015/2016 budget cycle. The local economy for the City of Kennewick and Tri-Cities region as a whole continued to be relatively healthy during 2015, which is reflected in the financial results of the City for this period. However, several financial challenges remain as the City completes its 2015/2016 biennium and begins planning for the 2017/2018 biennium. The following are key factors that may impact the City's governmental activities in the near future:

- ◆ Like many states across the nation, the State of Washington has faced severe budget deficits over the past 7-8 years. In order to balance its budget in recent bienniums, the state has 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 (PWTF) low-interest loan program, which the City had used historically and planned to use in the future to finance critical street and other infrastructure improvements for its growing community. Without the PWTF program, the City must evaluate more costly financing alternatives and ultimately may have to 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 has reduced state-shared liquor excise taxes and other state-shared revenues historically provided to cities.

In 2012, the Washington State Supreme Court issued a decision in *McCleary vs. the State of Washington* that the state was violating its own constitution by failing to adequately fund K-12 education. The decision also mandated that the State Legislature begin making measurable progress towards meeting its obligation to adequately fund basic education. In response to this decision, the State Legislature passed legislation that committed the State to meet its funding requirements by 2018. In the years since the *McCleary* decision, the issue of funding basic education has become increasingly political and has put tremendous pressure on the State Legislature with regard to their ability to adopt balanced budgets. As the 2018 deadline approaches, the State is still well short of meeting its obligations to fund basic education. Although estimates vary, most agree the State will need to allocate at least 2-3 billion dollars more in its 2017-2019 biennial budget for basic education, which leaves cities extremely vulnerable to further reductions in state-shared revenues, higher fees and charges for mandated state licenses and permits, and reductions in cost sharing for joint programs administered through the state.

The following are key factors that may impact the City's business-type activities in 2016 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 2016, 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 2016 and any modifications to rates will likely

not be implemented until 2017 or later, there is a high likelihood 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, 2015 (with comparative totals for 2014)

	Primary Government				Component Unit		
	Governmental Activities	Business-type Activities	Totals		Public Facilities District		
			2015	2014	2015	2014	
ASSETS							
Current assets:							
Equity in pooled cash & investments	\$ 21,877,805	\$ 9,096,250	\$ 30,974,055	\$ 24,629,864	\$ 1,554,440	\$ 2,197,321	
Receivables, net	9,498,092	2,356,111	11,854,203	11,505,986	238,869	311,656	
Due from primary government	-	-	-	-	128,364	160,095	
Internal balances	10,317,474	(10,317,474)	-	-	-	-	
Inventories	166,297	324,878	491,175	521,660	41,786	36,506	
Prepaid items	-	77,824	77,824	57,045	50,691	44,048	
Total current assets	41,859,668	1,537,589	43,397,257	36,714,555	2,014,150	2,749,626	
Noncurrent assets:							
Restricted equity in pooled cash & investments	7,533,135	2,290,693	9,823,828	3,468,131	-	-	
Restricted pension asset	6,142,548	1,113,001	7,255,549	-	-	-	
Net pension asset	201,170	-	201,170	157,296	-	-	
Investment in joint ventures	3,131,751	-	3,131,751	3,414,762	-	-	
Capital assets:							
Land, construction in progress and intangibles	103,797,332	11,419,853	115,217,185	115,303,060	-	-	
Depreciable capital assets - net	105,731,799	155,061,908	260,793,707	255,886,204	12,793,010	12,442,813	
Total noncurrent assets	226,537,735	169,885,455	396,423,190	378,229,453	12,793,010	12,442,813	
Total assets	268,397,403	171,423,044	439,820,447	414,944,008	14,807,160	15,192,439	
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	663,350	-	663,350	403,391	368,944	409,758	
Deferred outflows on pension	1,881,925	529,375	2,411,300	-	-	-	
Total deferred outflows of resources	2,545,275	529,375	3,074,650	403,391	368,944	409,758	
Total assets and deferred outflows of resources	\$ 270,942,678	\$ 171,952,419	\$ 442,895,097	\$ 415,347,399	\$ 15,176,104	\$ 15,602,197	
LIABILITIES							
Current liabilities:							
Accounts payable and accrued items	\$ 2,001,060	\$ 690,016	\$ 2,691,076	\$ 4,049,493	\$ 118,431	\$ 163,088	
Due to component unit	-	128,364	128,364	160,095	-	-	
Liabilities payable from restricted assets	2,502	-	2,502	8,415	-	-	
Unearned revenue	32,823	419,368	452,191	712,869	86,770	85,344	
Other current liabilities	395,300	23,323	418,623	375,341	-	-	
Current portion of long-term obligations	4,746,390	3,638,130	8,384,520	7,831,970	745,000	695,000	
Total current liabilities	7,178,075	4,899,201	12,077,276	13,138,183	950,201	943,432	
Noncurrent liabilities:							
Landfill closure costs payable from restricted assets	41,396	-	41,396	90,519	-	-	
Net post employment benefit obligation	1,847,593	-	1,847,593	1,465,782	-	-	
Pension liability (net)	8,524,410	3,183,336	11,707,746	-	-	-	
Noncurrent portion of long-term obligations	33,320,308	22,946,834	56,267,142	53,248,994	11,182,298	11,974,098	
Total noncurrent liabilities	43,733,707	26,130,170	69,863,877	54,805,295	11,182,298	11,974,098	
Total liabilities	50,911,782	31,029,371	81,941,153	67,943,478	12,132,499	12,917,530	
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows on pension	3,128,542	824,153	3,952,695	-	-	-	
Total deferred inflows of resources	3,128,542	824,153	3,952,695	-	-	-	
NET POSITION							
Net investment in capital assets	183,090,473	142,514,611	325,605,084	316,946,395	1,234,656	183,473	
Restricted for:							
Capital projects	8,262,595	1,131,885	9,394,480	3,191,655	-	-	
Debt service	40,506	1,158,808	1,199,314	1,199,916	-	-	
Grant programs	3,178,639	-	3,178,639	3,296,386	-	-	
Cash reserve	2,715,500	-	2,715,500	2,715,500	-	-	
Pension	6,142,548	1,113,001	7,255,549	-	-	-	
Unrestricted (deficit)	13,472,093	(5,819,410)	7,652,683	20,054,069	1,808,949	2,501,194	
Total net position	216,902,354	140,098,895	357,001,249	347,403,921	3,043,605	2,684,667	
Total liabilities, deferred inflows of resources and net position	\$ 270,942,678	\$ 171,952,419	\$ 442,895,097	\$ 415,347,399	\$ 15,176,104	\$ 15,602,197	

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

Statement of Activities
For the Year Ended December 31, 2015 (with comparative totals for 2014)

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		Component Unit	
					Governmental Activities	Business-type Activities	2014	2015
Primary government:								
Governmental activities:								
General government	\$ 7,995,740	\$ 1,426,374	\$ 1,992,493	\$ -	\$ (4,576,873)	\$ (5,789,033)	\$ -	\$ -
Public safety	27,870,812	2,502,834	616,634	-	(24,751,344)	(27,250,749)	-	-
Transportation	9,449,339	848,094	2,177,325	7,502,813	1,078,893	4,317,017	-	-
Physical environment	9,618	562,114	-	-	552,496	19,450	-	-
Economic environment	2,439,483	806,496	868,131	-	(764,856)	(432,352)	-	-
Social services	57,384	-	-	-	(57,584)	(50,310)	-	-
Culture and recreation	6,791,723	561,193	68,655	-	(6,161,875)	(6,180,135)	-	-
Interest on long-term debt	1,291,443	-	-	-	(1,291,443)	(1,294,850)	-	-
Total governmental activities	55,905,742	6,707,105	5,723,238	7,502,813	(35,972,586)	(36,660,962)	-	-
Business-type activities:								
Water and Sewer	16,919,995	18,213,126	-	4,130,511	5,423,642	4,610,703	-	-
Medical Services	5,789,698	4,580,696	91,745	-	(1,117,257)	(403,399)	-	-
Building Safety	1,189,976	1,549,559	-	-	359,583	374,655	-	-
Stormwater	1,676,069	1,186,315	-	631,883	142,129	116,658	-	-
Golf Course	308,386	218,733	-	-	(89,653)	(104,682)	-	-
Coliseum	3,859,569	2,786,982	-	-	(1,072,587)	(1,121,931)	-	-
Total business-type activities	29,743,693	28,535,411	91,745	4,762,394	3,645,857	3,472,004	-	-
Total primary government	\$ 85,649,435	\$ 35,242,516	\$ 5,814,983	\$ 12,265,207	\$ (35,972,586)	\$ (33,188,958)	\$ -	\$ -
Component unit:								
Public Facilities District	3,459,205	2,076,956	490,575	-	-	-	(891,674)	(795,999)
Total component unit	\$ 3,459,205	\$ 2,076,956	\$ 490,575	\$ -	\$ -	\$ -	\$ (891,674)	\$ (795,999)
General revenues:								
Property taxes					\$ 12,052,267	\$ 11,844,378	\$ -	\$ -
Sales taxes					21,470,287	17,336,255	1,247,631	1,138,040
Utility taxes					11,127,051	10,759,476	-	-
Real estate excise tax					2,736,131	1,610,706	-	-
Gambling excise tax					696,577	746,328	-	-
Lodging tax					1,018,734	914,197	-	-
Other taxes					422,703	423,926	-	-
Unrestricted investment earnings					225,621	304,221	2,981	2,948
Gain on sale of capital assets					-	-	-	-
Transfers					(2,294,778)	593,125	-	-
Total general revenues and transfers					47,454,593	49,827,971	1,250,612	1,140,988
Change in net position					11,482,007	17,501,242	338,938	344,989
Net position - beginning as restated					205,420,347	339,500,007	335,921,427	2,339,678
Net position - ending					\$ 216,902,354	\$ 357,001,249	\$ 347,403,921	\$ 2,684,667

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

Balance Sheet
 Governmental Funds
 December 31, 2015 (with comparative totals for 2014)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
ASSETS				
Equity in pooled cash & investments	\$ 6,213,908	\$ 189,000	\$ 8,330,502	\$ 902,261
Receivables (net of allowance for uncollectibles)	3,634,543	2,905,990	1,231,707	190,540
Due from other funds	-	-	1,402,450	-
Due from other governments	18,933	50,710	44,953	66,850
Restricted equity in pooled cash & investments	-	36,867	7,454,922	-
Total assets	\$ 9,867,384	\$ 3,182,567	\$ 18,464,534	\$ 1,159,651
LIABILITIES				
Accounts payable	\$ 843,976	\$ 2,214	\$ 362,447	\$ 356,931
Due to other funds	-	-	-	-
Due to other governments	115,650	1,715	-	-
Deposits payable	395,300	-	-	-
Unearned revenue	25,811	-	7,012	-
Liabilities payable from restricted assets	-	-	2,502	-
Total liabilities	1,380,737	3,929	371,961	356,931
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	2,926,922	2,922,918	959,146	-
Total deferred inflows of resources	2,926,922	2,922,918	959,146	-
FUND BALANCES				
Restricted				
Debt service	-	-	-	-
General fund	213,162	-	-	-
Community development	-	255,720	-	-
Public Safety	-	-	-	-
Tourism	-	-	-	-
Capital projects	-	-	6,301,379	-
Committed				
Coliseum loan	-	-	1,402,450	-
Park reserves	-	-	1,160,996	-
Debt service	-	-	-	-
Cash reserve	2,715,500	-	-	-
Assigned				
Capital projects	-	-	8,268,602	802,720
Debt service	-	-	-	-
Transportation	-	-	-	-
Unassigned	2,631,063	-	-	-
Total fund balances	5,559,725	255,720	17,133,427	802,720
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 9,867,384	\$ 3,182,567	\$ 18,464,534	\$ 1,159,651

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2015	2014
\$ 1,157,374	\$ 16,793,045	\$ 12,320,563
1,345,409	9,308,189	7,864,430
-	1,402,450	1,702,097
-	181,446	1,525,211
-	7,491,789	1,261,255
<u>\$ 2,502,783</u>	<u>\$ 35,176,919</u>	<u>\$ 24,673,556</u>
\$ 146,522	\$ 1,712,090	\$ 2,617,417
-	-	542,388
887	118,252	4,100
-	395,300	351,520
-	32,823	224,892
-	2,502	8,415
<u>147,409</u>	<u>2,260,967</u>	<u>3,748,732</u>
1,339,089	8,148,075	7,262,259
<u>1,339,089</u>	<u>8,148,075</u>	<u>7,262,259</u>
5,228	5,228	5,068
-	213,162	-
-	255,720	335,036
718,000	718,000	109,738
234,927	234,927	124,314
-	6,301,379	-
-	1,402,450	1,696,605
-	1,160,996	1,212,504
39	39	31
-	2,715,500	2,715,500
-	9,071,322	5,547,244
49,067	49,067	35,020
9,024	9,024	18,395
-	2,631,063	1,863,110
<u>1,016,285</u>	<u>24,767,877</u>	<u>13,662,565</u>
<u>\$ 2,502,783</u>	<u>\$ 35,176,919</u>	<u>\$ 24,673,556</u>

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

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position - Governmental Activities
December 31, 2015

Total governmental fund balances	\$ 24,767,877
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.	206,591,212
Other long-term assets are earned in the upcoming period but not available to pay for current period expenditures.	8,349,246
Proportionate share of defined benefit pension plans.	(3,383,260)
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.	19,123,397
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(38,546,118)</u>
Net position of governmental activities	<u><u>\$ 216,902,354</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, 2015 (with comparative totals for 2014)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
REVENUES				
Taxes:				
Property	\$ 11,441,616	\$ -	\$ 124,017	\$ -
Sales	14,802,344	-	4,172,299	-
Utility	8,715,086	-	-	-
Real estate excise tax	-	-	2,736,131	-
Gambling tax	696,577	-	-	-
Lodging tax	-	-	-	-
Other	412,009	-	-	-
Licenses and permits	769,224	-	-	-
Intergovernmental	1,876,177	906,563	76,341	3,481,962
Charges for services	4,412,759	-	148,916	-
Fines and forfeitures	1,200,188	-	-	-
Investment earnings	108,882	376	77,509	-
Special assessments	-	-	-	-
Rents and leases	355,370	-	13,295	-
Miscellaneous revenues	205,286	-	68,200	-
Total revenues	44,995,518	906,939	7,416,708	3,481,962
EXPENDITURES				
Current:				
General government	8,186,906	121,006	-	-
Public safety	26,257,715	-	-	-
Transportation	2,163,492	-	-	909,731
Social services	18,584	39,000	-	-
Physical environment	-	-	-	-
Economic environment	1,221,365	345,538	-	-
Culture and recreation	5,512,220	24,950	-	-
Debt service:				
Principal	-	-	558,733	-
Interest/issue costs	-	-	102,939	-
Capital outlay:				
General government	-	-	939,422	-
Public safety	13,906	-	674,509	-
Transportation	-	-	292,470	4,362,880
Physical environment	-	-	-	-
Culture and recreation	3,185	-	116,238	-
Total expenditures	43,377,373	530,494	2,684,311	5,272,611
Excess (deficiency) of revenues over (under) expenditures	1,618,145	376,445	4,732,397	(1,790,649)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,397,396	-	2,139,433	1,562,400
Transfers out	(3,595,000)	(455,761)	(5,019,381)	-
Special assessment note issued	-	-	-	-
Advance refunding escrow	-	-	-	-
Debt issuance	-	-	7,340,000	-
Capital leases	-	-	-	-
Premiums	-	-	287,162	-
Disposition of capital assets	-	-	228,432	-
Total other financing sources (uses)	(1,197,604)	(455,761)	4,975,646	1,562,400
Net change in fund balances	420,541	(79,316)	9,708,043	(228,249)
Fund balances (deficit) - beginning	5,139,184	335,036	7,425,384	1,030,969
Fund balances (deficit) - ending	\$ 5,559,725	\$ 255,720	\$ 17,133,427	\$ 802,720

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2015	2014
\$ 532,647	\$ 12,098,280	\$ 11,841,251
1,894,290	20,868,933	17,402,118
2,388,744	11,103,830	11,126,514
-	2,736,131	1,610,706
-	696,577	746,328
1,007,931	1,007,931	901,229
16,525	428,534	423,100
-	769,224	620,109
1,846,707	8,187,750	10,870,578
1,017,510	5,579,185	5,747,562
-	1,200,188	1,262,089
5,567	192,334	110,559
232,073	232,073	11,223
-	368,665	341,359
29,920	303,405	341,507
8,971,914	65,773,040	63,356,232
330,410	8,638,322	8,576,939
1,182,481	27,440,196	27,441,317
1,842,998	4,916,221	4,250,566
-	57,584	50,310
-	-	266,941
793,616	2,360,519	2,053,707
-	5,537,170	5,541,375
2,021,147	2,579,880	2,209,123
1,206,917	1,309,856	1,278,748
-	939,422	107,520
-	688,415	451,969
-	4,655,350	8,639,114
-	-	56,476
-	119,423	-
7,377,569	59,242,358	60,924,105
1,594,345	6,530,682	2,432,127
3,104,487	9,203,716	8,974,977
(3,840,179)	(12,910,320)	(11,725,454)
371,000	371,000	-
(6,287,505)	(6,287,505)	-
5,915,000	13,255,000	-
-	-	380,000
427,145	714,307	-
-	228,432	593,126
(310,052)	4,574,630	(1,777,351)
1,284,293	11,105,312	654,776
(268,008)	13,662,565	13,007,789
\$ 1,016,285	\$ 24,767,877	\$ 13,662,565

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

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, 2015

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

Net change in fund balances - total governmental funds \$ 11,105,312

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	\$ 6,402,610	
Depreciation	(6,525,645)	
Cost of Assets Sold	<u>(856,121)</u>	(979,156)

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. (5,472,922)

In the statement of activities, developer contributions are reported as income for the City based on the fair market value of these assets. 4,020,851

The statement of activities shows increases and (decreases) in the City's equity interest in joint ventures. (283,011)

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds. 885,819

The statement of activities reports the increase (decrease) in proportionate share of defined benefit pension plans. 1,542,335

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. (491,414)

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. 1,154,193

Change in net position of governmental activities \$ 11,482,007

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

Statement of Net Position
Proprietary Funds
December 31, 2015 (with comparative totals for 2014)

	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	\$ 6,552,826	\$ 515,011	\$ 21,140	\$ 2,007,273
Receivables, net	1,146,435	128,371	772,054	93,310
Due from other funds	1,086,892	-	-	-
Due from other governments	215,941	-	-	-
Inventories	287,954	33,973	-	2,951
Prepaid items	31,979	43,838	-	2,007
Total current assets	<u>9,322,027</u>	<u>721,193</u>	<u>793,194</u>	<u>2,105,541</u>
Noncurrent assets:				
Restricted equity in pooled cash & investments	2,290,693	-	-	-
Restricted pension asset	-	-	1,079,626	33,375
Capital assets:				
Land and intangibles	1,734,272	1,282,641	-	-
Buildings and improvements	206,388,040	12,220,890	-	18,203,495
Equipment	6,714,885	4,041,250	72,829	47,700
Construction in progress	8,402,940	-	-	-
Less accumulated depreciation	(77,786,783)	(8,975,775)	(51,966)	(5,812,657)
Total noncurrent assets	<u>147,744,047</u>	<u>8,569,006</u>	<u>1,100,489</u>	<u>12,471,913</u>
Total assets	<u>157,066,074</u>	<u>9,290,199</u>	<u>1,893,683</u>	<u>14,577,454</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on pension	267,284	-	170,787	91,304
Total assets and deferred outflows of resources	<u>\$ 157,333,358</u>	<u>\$ 9,290,199</u>	<u>\$ 2,064,470</u>	<u>\$ 14,668,758</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 138,654	\$ 362,381	\$ 88,296	\$ 75,064
Due to other funds	-	2,489,340	-	-
Due to component unit	-	140,493	-	-
Accrued interest payable	-	13,492	-	-
Compensated absences	187,082	-	164,195	85,503
Bonds, notes, and loans payable	3,017,106	-	-	184,244
Deposits payable	19,900	-	-	3,423
Other current liabilities	-	418,928	-	440
Total current liabilities	<u>3,362,742</u>	<u>3,424,634</u>	<u>252,491</u>	<u>348,674</u>
Noncurrent liabilities:				
Landfill closure costs payable from restricted assets	-	-	-	-
Compensated absences	249,589	-	246,376	122,152
Bonds, notes, and loans payable	20,203,464	-	-	562,336
Pension liability (net)	2,325,158	-	106,541	751,637
Other noncurrent liabilities	1,562,919	-	-	-
Total noncurrent liabilities	<u>24,341,130</u>	<u>-</u>	<u>352,917</u>	<u>1,436,125</u>
Total liabilities	<u>27,703,872</u>	<u>3,424,634</u>	<u>605,408</u>	<u>1,784,799</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on pension	365,041	-	331,383	127,729
NET POSITION				
Net investment in capital assets	122,232,783	8,569,006	78,156	11,691,958
Restricted for:				
Capital projects	1,131,885	-	-	-
Debt service	1,158,808	-	-	-
Pension	-	-	1,079,626	33,375
Unrestricted	<u>4,740,969</u>	<u>(2,703,441)</u>	<u>(30,103)</u>	<u>1,030,897</u>
Total net position	<u>129,264,445</u>	<u>5,865,565</u>	<u>1,127,679</u>	<u>12,756,230</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 157,333,358</u>	<u>\$ 9,290,199</u>	<u>\$ 2,064,470</u>	<u>\$ 14,668,758</u>

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

Business-Type Activities		Governmental Activities	
Enterprise Funds		Internal Service Funds	
2015	2014	2015	2014
\$ 9,096,250	\$ 7,854,535	\$ 5,084,757	\$ 4,454,766
2,140,170	1,808,084	8,457	13,187
1,086,892	1,887,527	-	-
215,941	295,074	-	-
324,878	326,586	166,297	195,071
77,824	57,045	-	-
12,941,955	12,228,851	5,259,511	4,663,024
2,290,693	2,116,394	41,343	90,482
1,113,001	-	-	-
3,016,913	3,016,913	-	-
236,812,425	223,093,750	318,843	318,843
10,876,664	10,696,501	15,260,886	14,942,773
8,402,940	14,547,277	-	-
(92,627,181)	(87,198,568)	(9,510,059)	(8,645,994)
169,885,455	166,272,267	6,111,013	6,706,104
182,827,410	178,501,118	11,370,524	11,369,128
529,375	-	27,052	-
\$ 183,356,785	\$ 178,501,118	\$ 11,397,576	\$ 11,369,128
\$ 664,395	\$ 1,150,905	\$ 60,593	\$ 132,138
2,489,340	3,047,236	-	-
140,493	160,095	-	-
13,492	15,823	2,455	3,024
436,780	435,646	23,794	20,710
3,201,350	3,036,859	234,534	227,602
23,323	23,509	-	-
419,368	488,289	-	-
7,388,541	8,358,362	321,376	383,474
-	-	41,396	90,519
618,117	583,538	25,283	20,591
20,765,800	23,558,549	528,880	785,117
3,183,336	-	235,326	-
1,562,919	1,062,917	-	-
26,130,172	25,205,004	830,885	896,227
33,518,713	33,563,366	1,152,261	1,279,701
824,153	-	36,945	-
142,571,903	137,560,465	5,306,256	5,602,903
1,131,885	956,597	-	-
1,158,808	1,159,797	-	-
1,113,001	-	-	-
3,038,322	5,260,893	4,902,114	4,486,524
149,013,919	144,937,752	10,208,370	10,089,427
\$ 183,356,785	\$ 178,501,118	\$ 11,397,576	\$ 11,369,128

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

Reconciliation of the Statement of Net Position - Proprietary Funds
To the Government-Wide Statement of Net Position - Business-Type Activities
December 31, 2015

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

Net position - total enterprise funds	\$ 149,013,919
The accumulated net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(8,915,024)</u>
Net position of business-type activities	<u>\$ 140,098,895</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, 2015 (with comparative totals for 2014)

	Business-type Activities- Enterprise Funds			Other Non-Major Enterprise Funds
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	
Operating revenues:				
Charges for services	\$ 18,213,126	\$ 2,786,985	\$ 4,580,696	\$ 2,931,401
Other operating revenues	-	-	88,994	25,957
Total operating revenues	<u>18,213,126</u>	<u>2,786,985</u>	<u>4,669,690</u>	<u>2,957,358</u>
Operating expenses:				
Maintenance and operations	7,004,940	3,185,783	4,508,559	2,533,018
Administrative and general	2,595,928	-	904,545	85,727
Taxes	2,183,796	39,189	120,288	29,023
Depreciation	4,519,477	570,392	6,253	350,586
Total operating expenses	<u>16,304,141</u>	<u>3,795,364</u>	<u>5,539,645</u>	<u>2,998,354</u>
Operating income (loss)	<u>1,908,985</u>	<u>(1,008,379)</u>	<u>(869,955)</u>	<u>(40,996)</u>
Nonoperating revenues (expenses):				
Investment earnings	68,048	-	(1,056)	11,609
Interest expense	(289,335)	(29,315)	-	(8,379)
Miscellaneous nonoperating revenue (expenses)	-	-	-	-
Gain (loss) on disposition of assets	-	-	-	-
Total nonoperating revenue (expenses)	<u>(221,287)</u>	<u>(29,315)</u>	<u>(1,056)</u>	<u>3,230</u>
Income (loss) before contributions and transfers	1,687,698	(1,037,694)	(871,011)	(37,766)
Capital contributions	4,130,511	-	-	631,884
Transfers in	-	1,099,358	1,350,000	52,430
Transfers out	(103,917)	-	(46,534)	(56,563)
Change in net position	<u>5,714,292</u>	<u>61,664</u>	<u>432,455</u>	<u>589,985</u>
Total net position - beginning, as restated	<u>123,550,153</u>	<u>5,803,901</u>	<u>695,224</u>	<u>12,166,245</u>
Total net position - ending	<u>\$ 129,264,445</u>	<u>\$ 5,865,565</u>	<u>\$ 1,127,679</u>	<u>\$ 12,756,230</u>

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

Business-type Activities-		Governmental Activities	
Enterprise Funds			
Total Enterprise Funds		Total Internal Service	
2015	2014	2015	2014
\$ 28,512,208	\$ 27,219,657	\$ 2,804,870	\$ 3,177,556
114,951	146,794	-	-
<u>28,627,159</u>	<u>27,366,451</u>	<u>2,804,870</u>	<u>3,177,556</u>
17,232,300	14,831,223	2,721,062	3,550,776
3,586,200	3,698,862	13,550	13,104
2,372,296	2,271,467	-	-
5,446,708	5,398,631	1,110,936	1,078,536
<u>28,637,504</u>	<u>26,200,183</u>	<u>3,845,548</u>	<u>4,642,416</u>
(10,345)	1,166,268	(1,040,678)	(1,464,860)
78,601	79,624	27,733	24,515
(327,029)	(362,934)	(10,600)	(12,514)
-	678	3,806	9,095
-	(6,365)	(17,060)	(44,777)
<u>(248,428)</u>	<u>(288,997)</u>	<u>3,879</u>	<u>(23,681)</u>
(258,773)	877,271	(1,036,799)	(1,488,541)
4,762,395	3,578,988	-	-
2,501,788	1,105,110	1,411,829	1,736,300
(207,014)	(51,083)	-	(39,850)
<u>6,798,396</u>	<u>5,510,286</u>	<u>375,030</u>	<u>207,909</u>
142,215,523	139,427,466	9,833,340	9,881,518
<u>\$ 149,013,919</u>	<u>\$ 144,937,752</u>	<u>\$ 10,208,370</u>	<u>\$ 10,089,427</u>

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

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, 2015

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

Net change in net position - total enterprise funds	\$ 6,798,396
The current year net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(779,161)</u>
Change in net position of business-type activities	<u>\$ 6,019,235</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, 2015 (with comparative totals for 2014)

	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	\$ 16,967,858	\$ 2,761,608	\$ 4,330,120	\$ 2,920,459
Other operating revenue	1,119,512	-	-	-
Payments to suppliers	(5,269,766)	(1,624,358)	(1,305,590)	(949,101)
Payments to employees	(5,297,348)	(1,509,132)	(4,265,110)	(1,659,676)
Other receipts	-	-	-	83,301
Internal activity - payments to other funds	(1,538,056)	-	-	(29,023)
Net cash provided by (used in) operating activities	<u>5,982,200</u>	<u>(371,882)</u>	<u>(1,240,580)</u>	<u>365,960</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayment for advances to other fund	536,899	-	-	-
Payments from landfill liability	-	-	-	-
Operating subsidies and transfers from other fund	-	898,850	1,350,000	45,000
Operating subsidies and transfers to other fund	-	-	(40,691)	40,691
Net cash provided by noncapital financing activities	<u>536,899</u>	<u>898,850</u>	<u>1,309,309</u>	<u>85,691</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	846,427	-	-	7,688
Repayment for advances to other fund	223,045	-	-	-
Proceeds from capital debt	26,407	-	-	219,227
Purchases of capital assets	(3,497,348)	(205,621)	-	(213,949)
Principal paid on capital debt	(2,984,851)	(517,203)	-	(50,930)
Interest paid on capital debt	(289,335)	(31,647)	-	(8,379)
Proceeds from sale of equipment	-	-	-	-
Capital grant	234,978	-	-	-
Transfer for capital purposes	(103,917)	200,508	(46,534)	(49,133)
Net cash provided by (used in) capital and related financing activities	<u>(5,544,594)</u>	<u>(553,963)</u>	<u>(46,534)</u>	<u>(95,476)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	81,432	-	(1,055)	9,757
Net cash provided by (used in) investing activities	<u>81,432</u>	<u>-</u>	<u>(1,055)</u>	<u>9,757</u>
Net increase (decrease) in pooled cash and investments	1,055,937	(26,995)	21,140	365,932
Balance - beginning of the year	<u>7,787,582</u>	<u>542,006</u>	<u>-</u>	<u>1,641,341</u>
Balance - end of the year	<u>\$ 8,843,519</u>	<u>\$ 515,011</u>	<u>\$ 21,140</u>	<u>\$ 2,007,273</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,908,985	\$ (1,008,379)	\$ (869,955)	\$ (40,996)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	4,519,477	570,392	6,253	350,586
Pension adjustment for net pension liability	(107,384)	-	(208,716)	(41,016)
Miscellaneous nonoperating income	-	-	-	-
Change in assets and liabilities:				
Receivables, net	(127,546)	42,090	(749,332)	50,648
Change in uncollectible accounts	1,790	-	498,758	69
Inventories	(16,135)	17,338	-	505
Prepaid expenses	(31,973)	12,079	-	(878)
Accounts and other payables	(602,023)	45,559	2,631	30,329
Unearned revenue	500,000	(67,467)	-	-
Accrued expenses	(62,991)	16,506	79,781	16,713
Net cash provided by (used in) operating activities	<u>\$ 5,982,200</u>	<u>\$ (371,882)</u>	<u>\$ (1,240,580)</u>	<u>\$ 365,960</u>
Noncash capital activities/developer contributions:	<u>\$ 3,231,480</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624,197</u>

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	
2015	2014	2015	2014
\$ 26,980,045	\$ 26,291,249	\$ 2,816,240	\$ 3,234,048
1,119,512	1,062,058	3,806	9,095
(9,148,815)	(9,023,726)	(2,222,250)	(2,957,947)
(12,731,266)	(9,468,763)	(558,223)	(573,123)
83,301	95,123	-	-
(1,567,079)	(1,512,575)	-	-
4,735,698	7,443,366	39,573	(287,927)
536,899	(44,840)	-	-
-	-	(49,480)	(63,606)
2,293,850	1,215,696	500,000	1,075,000
-	(41,691)	-	(39,850)
2,830,749	1,129,165	450,520	971,544
854,115	307,454	-	-
223,045	193,318	-	-
245,634	4,718,573	-	-
(3,916,918)	(9,977,556)	(606,857)	(697,230)
(3,552,984)	(3,232,256)	(227,601)	(221,968)
(329,361)	(362,875)	(32,873)	(38,506)
-	(45)	22,639	37,865
234,978	832,652	-	-
924	36,179	911,829	661,300
(6,240,567)	(7,484,556)	67,137	(258,539)
90,134	64,982	23,622	25,651
90,134	64,982	23,622	25,651
1,416,014	1,152,957	580,852	450,729
9,970,929	8,817,972	4,545,248	4,094,519
\$ 11,386,943	\$ 9,970,929	\$ 5,126,100	\$ 4,545,248
\$ (10,345)	\$ 1,166,268	\$ (1,040,678)	\$ (1,464,860)
5,446,708	5,398,631	1,110,936	1,078,536
(357,116)	678	(10,870)	-
-	-	3,806	9,095
(784,140)	(11,446)	11,370	56,491
500,617	75,635	-	-
1,708	22,962	28,775	25,470
(20,772)	15,110	-	-
(523,504)	12,014	(71,544)	4,908
432,533	478,331	-	-
50,009	285,183	7,778	2,433
\$ 4,735,698	\$ 7,443,366	\$ 39,573	\$ (287,927)
\$ 3,855,677	\$ 2,942,408	\$ -	\$ -

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

Statement of Fiduciary Net Position
 Fiduciary Funds
 December 31, 2015 (with comparative totals for 2014)

	Trust Funds		Agency Funds	
	2015	2014	2015	2014
ASSETS				
Equity in pooled cash & investments	\$ 2,297,156	\$ 2,117,936	\$ 1,225,735	\$ 1,253,949
Investments	450,702	85,849	-	-
Receivables	92,972	71,915	453	157
Due from other governments	-	-	37,808	42,687
Total assets	2,840,830	2,275,700	1,263,996	1,296,793
LIABILITIES				
Accounts payable	9,755	6,534	184,539	215,413
Due to other governments	-	-	1,053,643	1,054,115
Custodial accounts	-	-	25,814	27,265
Total liabilities	9,755	6,534	1,263,996	1,296,793
NET POSITION				
Held in trust for pension benefits and OPEB	\$ 2,831,075	\$ 2,269,166	\$ -	\$ -

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, 2015 (with comparative totals for 2014)

	Trust Funds	
	2015	2014
ADDITIONS		
Contributions:		
Employer	\$ 1,248,015	\$ 1,210,987
Total contributions	<u>1,248,015</u>	<u>1,210,987</u>
Investment earnings:		
Interest	24,455	13,869
Total investment earnings	<u>24,455</u>	<u>13,869</u>
Total additions	<u>1,272,470</u>	<u>1,224,856</u>
DEDUCTIONS		
Benefits	683,856	668,103
Administrative expenses	26,705	(556)
Total deductions	<u>710,561</u>	<u>667,547</u>
Change in net position	561,909	557,309
Net position - beginning	<u>2,269,166</u>	<u>1,711,857</u>
Net position - ending	<u><u>\$ 2,831,075</u></u>	<u><u>\$ 2,269,166</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

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 before the last claims run for the prior year, which is on the second Friday of January. 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, 2015, unassigned fund balance for the general fund was \$2,631,063, or 5.6 percent of total reported general fund expenditures and 5.4 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, 2015, the treasurer was holding \$15,813,335 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, 2015, there were delinquent special assessments receivable in the amount of \$3,491. 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 \$1,158,808 in Debt Service and \$1,131,885 in Capital Projects, and a net pension asset of \$1,113,001.

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, 2015, the City's compensated absences payable in accordance with GASB Statement No. 16 for all funds amounted to 123,935 hours and \$5,718,207. 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 has two items that qualify for reporting in this category. First is the deferred charge on refunding which 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. Second is the collective deferred outflows for pensions, which is discussed in more detail in Note 7.

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 City has two items that qualify for reporting in this category: unavailable revenue and the collective deferred inflows for pensions. Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue 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. See Note 7 for more information on the collective deferred inflows for pensions.

Pensions – For the year ended December 31, 2015, the City implemented the provisions of GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 \$38,546,118 difference are following.

Bonds and Notes Payable	(\$ 29,565,703)
Bond Premium	(998,806)
Unamortized Refunding Gain	663,350
Public Works Trust Fund Loans Payable	(1,839,094)
Capital Lease	(236,370)
Net OPEB Obligation	(1,847,593)
Accrued Interest	(107,668)
Compensated Absences	(4,614,234)
	<u>(\$ 38,546,118)</u>

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The following schedule details the \$206,591,212 difference.

Land	\$ 88,807,309
Depreciable Assets	198,599,917
Depreciation	(98,937,788)
Construction in Progress	14,990,023
Joint Ventures	3,131,751
	<u>\$ 206,591,212</u>

Other long-term assets are earned in the upcoming period but not available for current period expenditures. The following schedule details the \$8,349,246 difference.

Operating Grant - Economic Environment	\$ 2,922,918
Special Assessment	429,260
Sales Tax	3,782,049
Net Pension Asset	201,170
Motor Vehicle Fuel Tax	128,753
Utility Tax	449,722
Leasehold Excise Tax	4,810
Hotel/Motel Tax	125,619
Property Tax	304,945
	<u>\$ 8,349,246</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 schedule details the differences from capital activity in the current year.

Capital Outlays	\$ 6,402,610
Depreciation	(6,525,645)
Cost of Assets Sold	<u>(856,121)</u>
	<u><u>(\$ 979,156)</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	(\$ 14,340,307)
Debt Retired	2,579,880
Refunding	<u>6,287,505</u>
	<u><u>(\$ 5,472,922)</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	(\$ 46,013)
Sales Tax	592,702
Utility Tax	23,222
Other Tax	13,624
Contract Receivable	(38,432)
Miscellaneous Receivable	<u>340,716</u>
	<u><u>(\$ 885,819)</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	(\$ 302,931)
Net Pension Liability	43,874
OPEB Obligation	(381,811)
Interest on Long Term Debt	18,413
Amortized Bond Premium	213,588

Amortized Refunding Interest	<u>(82,547)</u>
	<u><u>(\$ 491,414)</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 schedule.

Internal Service Fund Operating Costs	(\$ 817,857)
Transfer of Equipment to Internal Service Funds	549,545
Investment Earnings	27,736
Disposition of Capital Assets	(17,060)
Transfers	<u>1,411,829</u>
	<u><u>\$ 1,154,193</u></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 2015. 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	\$ 47,997
Capital Improvement Fund	3,749,373
Urban Arterial Street Fund	873,374
Othe Non-Major Gov't'l Funds	140,860
Water/Sewer Fund	870,657
Medical Services Fund	3,772
Internal Service Funds	460,377
	<u>\$ 6,146,410</u>

C. Budget Revision

During 2015/2016 biennium, the biennial budget was revised as follows:

	Original Biennial Budget	Total Revisions	Amended Biennial Budget
General Fund	\$ 94,842,599	\$ 611,369	\$ 95,453,968
Street Fund	4,027,993	27,516	4,055,509
Urban Arterial Street Fund	-	18,005,571	18,005,571
Capital Improvement Fund	24,560,824	9,177,596	33,738,420
Water & Sewer Fund	41,007,458	5,710,650	46,718,108
Medical Services Fund	11,982,200	45,125	12,027,325
Building Safety Fund	3,213,000	340,505	3,553,505
Coliseum Fund	7,997,700	(10,536)	7,987,164
Stormwater Utility Fund	3,034,221	2,154,547	5,188,768
Columbia Park Golf Course Fund	749,380	391,116	1,140,496
Equipment Rental Fund	9,343,332	1,011,758	10,355,090
Central Stores Fund	681,200	23,005	704,205
Risk Management Fund	3,297,130	25,838	3,322,968
Debt Service Fund	6,106,180	6,713,500	12,819,680
LID Guaranty Fund	35,400	20	35,420
Arterial Street Fund	1,600,000	8,596	1,608,596
BI-PIN Operations Fund	679,138	-	679,138
Community Development Fund	1,305,800	873,474	2,179,274
MPD Assistant Operations Fund	62,423	(1,625)	60,798
Asset Forfeiture Fund	150,700	28,183	178,883
Public Safety Fund	5,232,083	71,083	5,303,166
Cash Reserve Fund	2,675,500	40,000	2,715,500
Lodging Tax Fund	2,948,900	399,914	3,348,814
Criminal Justice Sales Tax Fund	3,785,000	-	3,785,000
Fire Pension Fund	1,229,000	4,247	1,233,247
OPEB Trust Fund	3,646,000	(5,080)	3,640,920
Total	\$ 234,193,161	\$ 45,646,372	\$ 279,839,533

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 \$837,220, which consisted of \$981,894 per the City’s checking account bank balances, deposits in transit of \$173,146, \$54,000 in cash drawers and advance travel funds, less outstanding checks of \$371,820. 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, 2015:

<u>Item</u>	
Checking Accounts Deposits	\$ 783,220
Cash in Change Funds	34,000
Cash in Advance Travel Funds	<u>20,000</u>
	<u>\$ 837,220</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, 2015, 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	\$28,652,114	\$28,469,805	3.10
State Treasurer's Investment Pool	<u>14,831,441</u>	<u>14,831,441</u>	0.00
Total	\$43,483,555	\$43,301,246	
Portfolio weighted average			2.04

The Firemen’s Pension Trust Fund investment total includes \$265,202 in special assessment installment notes and the OPEB Trust Fund investment total includes \$185,500 in special assessment installment notes.

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, 2015, the City's investments in agency securities were rated AAA or they were unrated. 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, 2015 are shown on the following schedule.

Concentration of Credit Risk as a Percentage of Total Investments

<u>Issuer</u>		<u>Book Value</u>
Federal National Mortgage Association	\$12,096,448	28%
Federal Home Loan Mortgage Corp	6,997,737	16%
Federal Farm Credit Bank	3,994,843	9%
Federal Home Loan Bank	3,743,944	9%

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 2015 was \$2.1681 per \$1,000, on an assessed valuation of \$5,403,889,187, for a total regular levy of \$11,716,379. 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 2015, the City levied an additional \$.0765 per \$1,000 for the 1996 voter-approved G.O. bond issue for a total additional levy of \$410,000.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows

Governmental Activities	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:				
Land (including ROW)	\$ 85,660,007	\$ 3,446,412	\$ (299,110)	\$ 88,807,309
Construction in Progress	12,078,863	5,946,805	(3,035,645)	14,990,023
Subtotal non-depreciable capital assets	97,738,870	9,393,217	(3,334,755)	103,797,332
Depreciable capital assets:				
Buildings	42,640,512	-	-	42,640,512
Improvements other than buildings	19,485,540	-	(20,970)	19,464,570
Infrastructure	129,370,318	4,051,981	(546,205)	132,876,094
Equipment	18,938,302	620,763	(360,596)	19,198,469
Subtotal depreciable capital assets	210,434,672	4,672,744	(927,771)	214,179,645
Accumulated Depreciation:				
Buildings	(12,623,931)	(840,430)	-	(13,464,361)
Improvements other than buildings	(6,549,046)	(742,557)	11,536	(7,280,067)
Infrastructure	(71,267,587)	(4,544,782)	-	(75,812,369)
Equipment	(10,699,587)	(1,508,813)	317,351	(11,891,049)
Subtotal accumulated depreciation	(101,140,151)	(7,636,582)	328,887	(108,447,846)
Governmental activities capital assets, net	\$ 207,033,391	\$ 6,429,379	\$ (3,933,639)	\$ 209,529,131

Business-Type Activities	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Non-depreciable capital assets:				
Land	\$ 2,987,734	\$ -	\$ -	\$ 2,987,734
Intangible	29,179	-	-	29,179
Construction in Progress	14,547,277	3,166,798	(9,311,135)	8,402,940
Subtotal non-depreciable capital assets	17,564,190	3,166,798	(9,311,135)	11,419,853
Depreciable capital assets:				
Buildings and improvements	222,705,968	13,718,675	-	236,424,643
Equipment	11,084,284	198,258	(18,095)	11,264,447
Subtotal depreciable capital assets	233,790,252	13,916,933	(18,095)	247,689,090
Accumulated Depreciation:				
Buildings and improvements	(79,396,773)	(5,069,682)	-	(84,466,455)
Equipment	(7,801,796)	(377,026)	18,095	(8,160,727)
Subtotal accumulated depreciation	(87,198,569)	(5,446,708)	18,095	(92,627,182)
Business-type activities capital assets, net	\$ 164,155,873	\$ 11,637,023	\$ (9,311,135)	\$ 166,481,761

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

Governmental activities:

General Government	\$ 519,948
Public Safety	1,124,169
Physical Environment	210,930
Transportation	4,630,217
Economic Environment	46,859
Culture & Recreation	1,104,459
Total	<u>\$ 7,636,582</u>

Business-type activities:

Water and sewer service	\$ 4,519,477
Medical service	6,253
Coliseum service	570,392
Golf Course service	344,212
Stormwater service	6,374
Total	<u>\$ 5,446,708</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 2015.

The City has active construction projects as of December 31, 2015. At year-end the City's significant commitments with vendors are as shown on the following schedule.

Project	Spent to Date	Remaining Commitment
<u>Construction Commitments</u>		
Citywide Safety Project	\$ -	\$ 165,000
Clearwater - Leslie to US 395	-	140,000
Columbia Center Blvd Overlay	730,987	64,013
Columbia Gardens - Pretreatment Plant	46,400	53,700
Fire Station #65	429,102	3,502,939
Hildebrand Blvd	2,690,152	509,848
Olympia - SR397 to 27th	4,574,462	95,468
Steptoe Phase 3	3,452,476	71,524
W. 5th	320,010	29,790
Wastewater Trmt Plant Upgrade	169,125	394,625
<u>Other Commitments</u>		
GIS System	70,044	118,268
Office Machinery & Equipment	-	58,535
Software	273,262	77,851
Transportation Equipment	-	401,842
	\$ 12,756,020	\$ 5,683,405

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 11,707,746
Pension assets	\$ 7,255,549
Deferred outflows of resources	\$ 2,411,300
Deferred inflows of resources	\$ 3,952,695
Pension expense/expenditures	\$ 1,066,419

State Sponsored 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR 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

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City’s actual contributions to the plan were \$13,307 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City’s actual contributions to the plan were \$1,392,017 for the year ended December 31, 2015.

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

Plan Description

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$970,499 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member’s entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 7,714,371	\$ 6,336,226	\$ 5,151,147
PERS 2/3	\$ 15,706,602	\$ 5,371,520	\$ (2,541,665)
LEOFF 1	\$ (583,881)	\$ (912,666)	\$ (1,192,894)
LEOFF 2	\$ 6,351,985	\$ (6,342,883)	\$ (15,896,253)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City reported a total pension liability of \$4,452,197 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 6,336,226
PERS 2/3	\$ 5,371,520
LEOFF 1	\$ (912,666)
LEOFF 2	\$ (6,342,883)

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

	Liability (or Asset)
LEOFF 2 – employer’s proportionate share	\$ (6,342,883)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	\$ (598,080)
TOTAL	\$ (6,940,963)

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.123877 %	0.121130 %	- 0.002747 %
PERS 2/3	0.152120 %	0.150334 %	- 0.001786 %
LEOFF 1	0.073853 %	0.075726 %	+ 0.001873 %
LEOFF 2	0.609750 %	0.617132 %	+ 0.007382 %

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in *the Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Allocation Method

The City must allocate its proportionate share of the net pension liability (asset), deferred outflows/inflows, and pension expense among governmental and business-type activities and individual proprietary funds. This allocation method is similar to that prescribed by GASB Statement 68 for cost-sharing plans, as well as the method used by DRS to calculate the City's proportionate share. These items are allocated to funds and activities based on their proportionate share of actual employer contributions to the plan. The PERS 2/3 allocation percentages were used for both PERS 1 and PERS 2/3 plans, and the LEOFF 2 allocation percentages were used for both LEOFF 1 and LEOFF 2 plans.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 223,000
PERS 2/3	\$ 644,452
LEOFF 1	\$ (194,782)
LEOFF 2	\$ 393,749
TOTAL	\$ 1,066,419

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		\$ 346,661
Contributions subsequent to the measurement date	\$ 334,469	
TOTAL	\$ 334,469	\$ 346,661

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 570,994	
Net difference between projected and actual investment earnings on pension plan investments		\$ 1,433,941
Changes of assumptions	\$ 8,655	
Changes in proportion and differences between contributions and proportionate share of contributions		\$ 57,467
Contributions subsequent to the measurement date	\$ 431,724	
TOTAL	\$ 1,011,373	\$ 1,491,408

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		\$ 154,076
TOTAL		\$ 154,076

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 555,425	
Net difference between projected and actual investment earnings on pension plan investments		\$ 1,921,860
Changes of assumptions	\$ 16,730	
Changes in proportion and differences between contributions and proportionate share of contributions		\$ 38,690
Contributions subsequent to the measurement date	\$ 493,303	
TOTAL	\$ 1,065,458	\$ 1,960,550

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2016	\$ (134,354)	\$ (406,223)	\$ (59,787)	\$ (648,696)
2017	\$ (134,354)	\$ (406,223)	\$ (59,787)	\$ (648,696)
2018	\$ (134,354)	\$ (406,225)	\$ (59,787)	\$ (648,696)
2019	\$ 56,401	\$ 306,912	\$ 25,285	\$ 434,580
2020	-	-	-	\$ 102,588
2021	-	-	-	\$ 20,525
Thereafter	\$ -	\$ -	\$ -	\$ -

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, 2015. 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, 2015, 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, 2015 was \$619,299 and retirement pensions in 2015 totaled \$148,561.

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		
	2013	2014	2015
Amortization of UAAL (BOY)	\$ 117,542	\$ 102,383	\$ 106,975
Interest to end of year (EOY)	4,702	4,095	3,744
Annual required contribution (ARC)	122,244	106,479	110,720
Interest on NPO	(1,478)	(3,746)	(5,505)
Adjustment to ARC	2,921	7,727	12,980
Annual pension cost (APC)	123,687	110,460	118,195
Total contributions	180,370	174,115	162,069
Change in NPO	(56,683)	(63,655)	(43,874)
NPO at BOY	(36,958)	(93,641)	(157,296)
NPO at EOY	(93,641)	(157,296)	(201,170)

The following schedule shows the three-year trend beginning with 2013 as of December 31:

Year	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
2015	\$118,566	145%	(\$201,170)
2014	\$110,459	158%	(\$157,296)
2013	\$123,687	146%	(\$93,641)

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
2015	110,720	(5,505)	(12,980)	118,195	162,069	(43,874)	(201,170)	(51,349)	11.9205	(13,195)	(201,170)
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

Investment earnings are assumed to accrue at an annual rate of 3.5%. Salary and postretirement benefit increases are each estimated at 3.25% per annum. The inflation rate is assumed to increase at 2.25% 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 3.5% discount rate was used.

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
12/31/2015	\$75,702	\$86,367	\$162,069	\$110,720	146%
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%

The schedule below shows the funding progress and 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 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
January 1, 2015	\$867	\$2,142	\$1,275	40%
January 1, 2014	819	2,012	1,193	41%
January 1, 2012	716	2,204	1,488	32%
January 1, 2010	531	2,038	1,507	26%

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 2015.

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 179 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 subject 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 \$96,583 to F. M. Global Insurance Company for their services in 2015.

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, 2015 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. The liability for claims incurred but not reported (IBNR) was \$32,559 on December 31, 2015, leaving \$137,924 cash reserves available for claims. Management estimates unpaid claims based upon historical trends. Expenditures were not adjusted due to salvage or subrogation in 2015.

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

	2014				2015			
	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance
Unemployment Claims	\$ -	\$ 111,989	\$ (111,989)	\$ -	\$ -	\$ 81,658	\$ (81,658)	\$ -
Dental Claims	30,640	448,962	(446,473)	33,129	33,129	413,264	(413,834)	32,559
	<u>\$ 30,640</u>	<u>\$ 560,951</u>	<u>\$ (558,462)</u>	<u>\$ 33,129</u>	<u>\$ 33,129</u>	<u>\$ 494,922</u>	<u>\$ (495,492)</u>	<u>\$ 32,559</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, 2015, was \$41,344.

Since 2011 the City has been with the Association of Washington Cities (AWC) Retrospective Rating Plan and paid \$43,067 to AWC to administer this program for 2015. Premium refunds totaling \$24,235 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. In May of 2015, the City of Kennewick issued \$3,255,000 2015A Taxable Bonds to be used to acquire land within the City. In May of 2015, the City also issued \$4,085,000 2015B Non-Taxable Bonds to construct and equip a new fire station, acquire firefighting equipment and a new medic unit. 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		Final		Debt
	Amount	Installments	Maturity	Interest Rates	Oustanding
2005 GO Refunding Bonds	\$ 3,285,000	\$80,000 - \$385,000	12/01/16	3.0% - 4.5%	\$ 385,000
2011 GO Refunding Bonds 03B	5,330,000	\$5,000 - \$425,000	12/01/23	3.0% - 4.0%	4,360,000
2010B GO Bonds	11,825,000	\$425,000 - \$830,000	12/01/34	3.45% - 6.323%	11,400,000
2015A GO Bonds	3,255,000	\$175,000 - \$355,000	12/01/25	.53% - 3.02%	3,080,000
2015B GO Refunding Bonds 06	5,915,000	\$110,000 - \$660,000	12/01/25	2.0% - 3.0%	5,805,000
2015B GO Bonds	4,085,000	\$225,000 - \$490,000	12/02/34	3.0% - 4.0%	4,085,000
					<u>\$ 29,115,000</u>

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

	Year Ended December 31								Total
	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2034	
Principal	\$2,105,000	\$1,775,000	\$1,825,000	\$1,880,000	\$1,935,000	\$9,345,000	\$5,275,000	\$4,975,000	\$29,115,000
Interest	1,215,366	1,149,113	1,091,294	1,029,292	963,250	3,692,279	2,140,705	687,943	11,969,244

Refunding Bonds

The City issued \$5,915,000 of general obligation non-taxable refunding bonds (also 2015B). These Bonds were issued to refund all of the City's callable outstanding Limited Tax GO 2006 Bonds. A portion of the proceeds from the sale of the 2015B Bonds will be used to advance refund the callable portion of the 2006 Bonds maturing on December 1 in the years 2016, 2019, 2021 and 2023 through 2025. The Bonds will be used to provide the money necessary to establish an irrevocable trust escrow 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. This will provide a net present value debt service savings for the City of \$483,212.

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 two outstanding installment notes from the Fire Pension Fund. The first note is for LID #225. The note is currently \$79,703 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.

The second note is for LID #226. The note is currently \$185,500 and was issued April 1, 2015 at an interest rate of 3.25%. The note matures on April 1, 2025. 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.

The City currently has one outstanding installment notes from the OPEB Trust Fund. The note is for LID #226. The note is currently \$185,500 and was issued April 1, 2015 at an interest rate of 3.25%. The note matures on April 1, 2025. 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, 2015 are as follows:

<u>Purpose</u>	<u>% of Av</u>	<u>Remaining Capacity</u>	<u>Notes</u>
General Government	2 1/2%	\$ 109,906,164	(\$52,923,128 is Councilmanic)
Park and Open Space	2 1/2%	140,432,039	
Utility	2 1/2%	140,432,039	

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 December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 449,123	\$ 18,391	\$ 3,201,350	\$ 251,310
2017	449,123	13,900	2,984,587	210,825
2018	449,123	9,408	3,021,623	150,245
2019	245,863	4,917	2,257,709	102,424
2020	245,861	2,459	2,069,005	85,387
2021 - 2025	-	-	7,909,264	202,501
2026 - 2030	-	-	2,051,386	33,422
2031-2032	-	-	472,227	3,542
	<u>\$ 1,839,093</u>	<u>\$ 49,075</u>	<u>\$ 23,967,151</u>	<u>\$ 1,039,655</u>

Outstanding notes and loans are shown on the following schedule for both governmental and business activities as of December 31, 2015.

Purpose	Issuance		Final Maturity	Interest Rates	Debt Outstanding
	Amount	Installments			
Governmental Activities:					
PWTF - Comp Street Imp I	\$ 3,817,100	\$ 203,264	07/01/18	1.00%	\$ 609,796
PWTF - Comp Street Imp II	4,550,000	215,526	07/01/20	1.00%	1,229,297
Total Governmental Activities					<u>\$ 1,839,093</u>
Business-type Activities:					
PWTF - Water System Imp	\$ 6,856,358	\$ 368,669	07/01/16	1.00%	\$ 368,672
PWTF - Wastewater Lagoon	2,450,000	130,464	07/01/20	1.00%	652,323
PWTF - Misc W/S Imp	3,000,000	159,375	07/01/21	0.50%	956,250
PWTF - Advanced Water Treatment	9,500,000	531,250	07/01/25	0.50%	5,312,500
PWTF - Waste Wtr Trtmt Plant-Const	5,500,000	290,278	07/01/28	0.50%	3,773,610
PWTF - Zone 4 Reservoir	4,250,000	223,685	07/01/32	0.50%	4,013,889
CERB - Welch's Project	125,000	4,689 - 9,338	01/01/21	4.70%	63,963
WPCRF - LID Manual & Demo Project	390,000	90,358	12/31/19	1.40%	286,751
WPCRF - Wellhead Area Retrofit	690,000	159,871	12/31/18	1.40%	459,829
WPCRF - Kennewick Sustainability	725,000	167,993	03/01/21	1.40%	582,586
SRF - Drinking Water	4,040,000	212,632	10/01/24	1.50%	1,913,681
SRF - Water Treatment Facility	4,080,000	240,833	10/01/23	1.00%	1,813,331
SRF - Ranney Improvements	3,030,000	173,030	10/01/25	1.50%	1,575,751
SRF - Wastewater Treatment Facility	10,063,642	479,167 - 748,141	05/31/17	4.50%	2,194,015
Total Business-type Activities					<u>\$ 23,967,151</u>

At December 31, 2015, restricted assets in proprietary funds contain \$1,158,808 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, 2015, 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 \$34,792 for the year ended December 31, 2015. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2016	\$33,833
2017	27,971
2018	15,331
2019	11,091
2020	1,994

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, 2015 are on the following schedule.

Leased Equipment	Governmental Activities	Year Ending December 31	Governmental Activities
Police Vehicles	\$ 1,181,136	2016	\$ 260,474
		2017	260,474
		2018	260,474
		Total minimum remaining lease pmts	781,422
		Less: amount representing interest	(49,856)
			<u>\$ 731,566</u>
Computers	\$ 345,980	2016	\$ 124,169
		2017	124,169
		Total minimum remaining lease pmts	248,338
		Less: amount representing interest	(11,968)
			<u>\$ 236,370</u>

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

The following schedule shows a summary of changes in long-term liabilities for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 23,820,000	\$ 13,255,000	\$ 7,960,000	\$ 29,115,000	\$ 2,105,000
Notes and loans	2,288,214	-	449,121	1,839,093	449,123
Special assessments	85,849	371,000	6,146	450,703	-
Total bonds and notes payable	26,194,063	13,626,000	8,415,267	31,404,796	2,554,123
Adjust for deferred amounts:					
For issuance premium	551,642	714,307	235,291	1,030,658	-
Landfill settlement	90,519	-	49,123	41,396	-
OPEB payable	1,465,782	381,811	-	1,847,593	-
Capital leases	1,305,148	-	337,212	967,936	349,765
Pension liability	-	8,524,410	-	8,524,410	-
Compensated absences	4,352,602	2,911,374	2,600,668	4,663,308	1,842,502
Governmental activity					
Long-term liabilities	<u>\$ 33,959,756</u>	<u>\$ 26,157,902</u>	<u>\$ 11,637,561</u>	<u>\$ 48,480,097</u>	<u>\$ 4,746,390</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Notes and loans payable	\$ 26,595,408	\$ 407,523	\$ 3,035,780	\$ 23,967,151	\$ 3,201,350
Biosolids reserve	1,062,917	499,997	-	1,562,914	-
Pension liability	-	3,183,336	-	3,183,336	-
Compensated absences	1,019,184	866,897	831,182	1,054,899	436,780
Business-type activity					
Long-term liabilities	<u>\$ 28,677,509</u>	<u>\$ 4,957,753</u>	<u>\$ 3,866,962</u>	<u>\$ 29,768,300</u>	<u>\$ 3,638,130</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 \$49,077 of internal services funds compensated absences. One capital lease for \$731,566 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. In the opinion of management and the City Attorney, the disposition of these matters is not presently expected to have a material adverse effect on the City’s financial statements.

NOTE 13 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables at December 31, 2015 are shown on the following schedule:

Receivables at December 31, 2015 were as follows:

Receivables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Govt'l Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor Proprietary Fund	Internal Service Fund	Total
Interest	\$ 7,833	\$ 77	\$ 28,128	\$ -	\$ 1,435	\$ 17,283	\$ -	\$ -	\$ 2,539	\$ 6,282	\$ 63,577
Taxes	3,023,428	-	1,188,853	-	909,827	-	-	-	-	-	5,122,108
Accounts	619,467	2,905,913	14,726	190,540	434,147	1,205,098	128,371	1,557,168	94,033	2,175	7,151,638
Due from other governments	18,933	50,710	44,953	66,850	-	215,941	-	-	-	-	397,387
Gross Receivables	3,669,661	2,956,700	1,276,660	257,390	1,345,409	1,438,322	128,371	1,557,168	96,572	8,457	12,734,710
Less: allowance for uncollectible accounts	(16,185)	-	-	-	-	(75,946)	-	(785,114)	(3,262)	-	(880,507)
Net Total Receivables	\$ 3,653,476	\$ 2,956,700	\$ 1,276,660	\$ 257,390	\$ 1,345,409	\$ 1,362,376	\$ 128,371	\$ 772,054	\$ 93,310	\$ 8,457	\$ 11,854,203

B. Payables at December 31, 2015 are shown on the following schedule:

Payables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Govt'l Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor Proprietary Fund	Internal Service Fund	Total
Interest	\$ -	\$ -	\$ 591	\$ -	\$ -	\$ -	\$ 13,492	\$ -	\$ -	\$ 2,455	\$ 16,538
Claims and judgements	-	-	-	-	-	-	-	-	-	32,559	32,559
Accounts	257,534	-	364,358	356,931	91,580	60,278	351,186	3,616	47,861	19,929	1,553,273
Salaries and benefits	586,442	2,214	-	-	54,942	78,300	23,324	84,680	27,203	8,105	865,210
Due to other governments	115,650	1,715	-	-	888	76	-	-	-	-	118,329
Total Govt'l & Bus Activities	\$ 959,626	\$ 3,929	\$ 364,949	\$ 356,931	\$ 147,410	\$ 138,654	\$ 388,002	\$ 88,296	\$ 75,064	\$ 63,048	\$ 2,585,909
Reconciliation of financial statements to governmental wide financial statements:											
Accrued long term interest	\$ 107,669	-	-	-	-	-	-	-	-	-	\$ 107,669
Net Total Payables	\$ 1,067,295	\$ 3,929	\$ 364,949	\$ 356,931	\$ 147,410	\$ 138,654	\$ 388,002	\$ 88,296	\$ 75,064	\$ 63,048	\$ 2,693,578

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, 2015 outstanding interfund balances (resulting from various interfund transactions):

Interfund Transfers	Purpose - Transfers out	Transfers in	Transfers out
General Fund	Operations Transfers (Routine)	\$ 2,397,396	\$ -
General Fund	Capital Transfers (Non-routine)	-	1,500,000
General Fund	Operations Transfer (Golf Course)	-	45,000
General Fund	Operations Transfer (Ambulance)	-	1,350,000
General Fund	Operations Transfer (Coliseum)	-	200,000
General Fund	Operations Transfer (Risk Mngmt)	-	500,000
Community Development Fund	Capital (Non-routine)	-	455,761
Capital Improvement Fund	Capital Transfers (Non-routine)	2,139,434	2,495,989
Capital Improvement Fund	Debt Service (Routine)	-	2,523,391
Urban Arterial Street Fund	Capital (Non-routine)	1,562,400	-
Other Non-Major Gov't'l Funds	Debt Service (Routine)	2,523,391	-
Other Non-Major Gov't'l Funds	Operations Transfers (Routine)	-	3,096,246
Other Non-Major Gov't'l Funds	Capital Transfers (Non-routine)	581,096	743,933
Water/Sewer Fund	Capital Transfers (Non-routine)	-	103,917
Medical Services Fund	Operating Transfers (Non-routine)	1,350,000	-
Medical Services Fund	Capital Transfers (Non-routine)	-	46,534
Coliseum Fund	Operations Transfers (Routine)	898,850	-
Coliseum Fund	Capital Transfers (Non-routine)	200,508	-
Other Non-Major Enterprise Funds	Operations Transfers (Routine)	45,000	-
Other Non-Major Enterprise Funds	Capital Transfers (Non-routine)	7,430	56,563
Internal Service Funds	Operations Transfers (Routine)	500,000	-
Internal Service Funds	Capital Transfers (Non-routine)	911,829	-
	Total	\$ 13,117,334	\$ 13,117,334

Interfund Loans	Purpose - Due to other funds	Due from other funds	Due to other funds
Capital Improvement Fund	Capital Purchase	\$ 1,402,447	\$ -
Water & Sewer Fund	Capital Construction	1,086,892	-
Coliseum Fund	Capital Construction/Purchase	-	2,489,339
	Total	\$ 2,489,339	\$ 2,489,339

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 2015 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, Prosser, Benton County Fire Protection District (BCFPD) #1, BCFPD #2, BCFPD #4, and BCFPD #6. 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. The Cities of Kennewick, Richland and Benton County each own a share of 800 MHz's net assets. User agencies including Benton County Sheriff, Juvenile Justice Center, Public Works, Public Utility District, Animal Control and County Jail, the cities of Kennewick, Richland, West Richland and Prosser, as well as PNNL and the AREVA Corporation.

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, 2015, the City of Kennewick's equity interest in SECOMM was \$1,297,764, \$19,593 in BCEM, \$15,886 in Microwave and \$1,716,771 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, and risk management and information systems. The total amount paid by BI-PIN in 2015 for these transactions was \$119,000.

The City of Kennewick's equity interest in BI-PIN was \$78,014 on December 31, 2015, 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 \$3,723 on June 30, 2015, 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, 2015, the City had 41 individuals that met the eligibility requirements of this retirement plan.

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:

<u>Encumbrances</u>	
General Fund	\$ 47,997
Capital Improvement Fund	3,749,373
Urban Arterial Street Fund	873,374
Othe Non-Major Gov't'l Funds	140,860
Water/Sewer Fund	870,657
Medical Services Fund	3,772
Internal Service Funds	460,377
	<u>\$ 6,146,410</u>

C. Budget Revision

During 2015/2016 biennium, the biennial budget was revised as follows:

	Original Biennial Budget	Total Revisions	Amended Biennial Budget
General Fund	\$ 94,842,599	\$ 611,369	\$ 95,453,968
Street Fund	4,027,993	27,516	4,055,509
Urban Arterial Street Fund	-	18,005,571	18,005,571
Capital Improvement Fund	24,560,824	9,177,596	33,738,420
Water & Sewer Fund	41,007,458	5,710,650	46,718,108
Medical Services Fund	11,982,200	45,125	12,027,325
Building Safety Fund	3,213,000	340,505	3,553,505
Coliseum Fund	7,997,700	(10,536)	7,987,164
Stormwater Utility Fund	3,034,221	2,154,547	5,188,768
Columbia Park Golf Course Fund	749,380	391,116	1,140,496
Equipment Rental Fund	9,343,332	1,011,758	10,355,090
Central Stores Fund	681,200	23,005	704,205
Risk Management Fund	3,297,130	25,838	3,322,968
Debt Service Fund	6,106,180	6,713,500	12,819,680
LID Guaranty Fund	35,400	20	35,420
Arterial Street Fund	1,600,000	8,596	1,608,596
BI-PIN Operations Fund	679,138	-	679,138
Community Development Fund	1,305,800	873,474	2,179,274
MPD Assistant Operations Fund	62,423	(1,625)	60,798
Asset Forfeiture Fund	150,700	28,183	178,883
Public Safety Fund	5,232,083	71,083	5,303,166
Cash Reserve Fund	2,675,500	40,000	2,715,500
Lodging Tax Fund	2,948,900	399,914	3,348,814
Criminal Justice Sales Tax Fund	3,785,000	-	3,785,000
Fire Pension Fund	1,229,000	4,247	1,233,247
OPEB Trust Fund	3,646,000	(5,080)	3,640,920
Total	\$ 234,193,161	\$ 45,646,372	\$ 279,839,533

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, 2013, 2014 and 2015, 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>
12/31/15	\$934,180	59.1%	\$1,847,593
12/31/14	\$990,599	54.1%	\$1,465,782
12/31/13	\$950,218	66.9%	\$1,010,800

D. Funding Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$17,261,518 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,261,518. The covered payroll (annual payroll of active employees covered by the plan) for 2015 was \$0 as there are no longer any active employees covered by the plan.

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 2015. 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, 2015 (with comparative totals for 2014)

	Totals	
	2015	2014
ASSETS		
Equity in pooled cash & investments	\$ 1,677,857	\$ 1,339,076
Investments	185,500	-
Receivables, net	85,803	69,378
Total assets	1,949,160	1,408,454
LIABILITIES		
Accounts payable	9,755	6,534
Total liabilities	9,755	6,534
NET POSITION		
Held in trust for pension benefits and other purposes	\$ 1,939,405	\$ 1,401,920

Statement of Changes in Net Position
 OPEB Trust Fund
 For the Year Ended December 31, 2015 (with comparative totals for 2014)

	Totals	
	2015	2014
ADDITIONS		
Contributions:		
Employer	\$ 1,076,313	\$ 1,037,429
Total contributions	1,076,313	1,037,429
Investment Earnings:		
Interest	13,541	6,585
Total investment earnings	13,541	6,585
Total additions	1,089,854	1,044,014
DEDUCTIONS		
Benefits	552,369	535,618
Total deductions	552,369	535,618
Change in net position	537,485	508,396
Net position - beginning	1,401,920	893,524
Net position - ending	\$ 1,939,405	\$ 1,401,920

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 Care Program (“Trust”). RCW 48.62 provides that two or more local government entities may, by Interlocal agreement under RCW 39.34, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of RCW 39.34, the Interlocal Cooperation Act. The Trust was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Government Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust. As of December 31, 2015, 261 cities/towns/non-city entities participate in the Trust.

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

Funding Policy

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

Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

AWC Health First - 1000 is \$871.51 for non-Medicare enrolled retiree coverage and \$879.12 for non-Medicare enrolled spouse coverage.

AWC Health First - 2500 is \$760.96 for non-Medicare enrolled retiree coverage and \$766.49 for non-Medicare enrolled spouse coverage.

Participating employers contract to remain in the Trust for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the Trust a minimum of 60 days prior to termination. A participating employer’s termination will not obligate that member to past debts, or further contributions to the Trust. Similarly, the terminating member forfeits all rights and interest to the Trust Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserve, plan options, and benefits in compliance with RCW 48.62. The Board of Trustees has decision authority consistent with the Trust Agreements, Health Care Program policies, RCW 48.62 and WAC 200-110.

The accounting records of the Trust are maintained in accordance with methods prescribed by the State Auditor's office under the authority of RCW 43.09. The Trust also follows applicable accounting standards established by GASB. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by WAC 200-110. The audit report for the Employee Benefits Trust Care Program is available from the Washington State Auditor's Office.

NOTE 20 - OTHER DISCLOSURES

A. Change in Accounting Principle

Net position as of January 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.

Government-wide net position as previously reported at December 31, 2014:	\$ 347,403,921
Net pension asset	8,987,327
Net pension liability	(9,315,256)
Deferred outflows	1,076,933
Deferred inflows	(8,652,918)
Government-wide net position as restated, January 1, 2015:	<u>\$339,500,007</u>

Prior year data is presented in the City's financial statements, but not restated because all of the information needed to restate prior year amounts was not available.

B. 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.

RSI – Required Supplementary Information

Cost Sharing Employer Pension Plans

Schedules of Proportionate Share of the Net Pension Liability Measurement Date of June 30*

	2015
PERS 1 Pension Plan	
City's proportion of the net pension liability/(asset)	0.12%
City's proportionate share of the net pension liability/(asset)	\$ 6,336,226
City's covered employee payroll	\$ 239,194
City's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	2648.99%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	59.10%
PERS 2/3 Pension Plan	
City's proportion of the net pension liability/(asset)	0.15%
City's proportionate share of the net pension liability/(asset)	\$ 5,371,520
City's covered employee payroll	\$ 13,341,888
City's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	40.26%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	89.20%
LEOFF 1 Pension Plan	
City's proportion of the net pension liability/(asset)	0.08%
City's proportionate share of the net pension liability/(asset)	\$ (912,666)
City's covered employee payroll	\$ 36,825
City's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	-2478.39%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	127.36%
LEOFF 2 Pension Plan	
City's proportion of the net pension liability/(asset)	0.62%
City's proportionate share of the net pension liability/(asset)	\$ (6,342,883)
State's proportionate share of the net pension liability/(asset) associated with the City	(598,080)
TOTAL	<u>\$ (6,940,963)</u>
City's covered employee payroll	\$ 17,911,529
City's proportionate share of the net pension liability/(asset) as a percentage of covered employee payroll	-38.75%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	111.67%

*These schedules will be built prospectively until they contain ten years of data.

RSI – Required Supplementary Information

Cost Sharing Employer Pension Plans

Schedules of Employer Contributions
Fiscal Year Ended December 31,

	<u>2015</u>
PERS 1 Pension Plan	
Contractually required contributions	\$ 22,030
Contributions in relation to the contractually required contributions	<u>22,030</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 239,194
Contributions as a percentage of covered employee payroll	9.21%
PERS 2/3 Pension Plan	
Contractually required contributions	\$ 1,228,790
Contributions in relation to the contractually required contributions	<u>1,228,790</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 13,341,888
Contributions as a percentage of covered employee payroll	9.21%
LEOFF 1 Pension Plan	
Contractually required contributions	\$ 66
Contributions in relation to the contractually required contributions	<u>66</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 36,825
Contributions as a percentage of covered employee payroll	0.18%
LEOFF 2 Pension Plan	
Contractually required contributions	\$ 936,777
Contributions in relation to the contractually required contributions	<u>936,777</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 17,911,529
Contributions as a percentage of covered employee payroll	5.23%

**These schedules will be built prospectively until they contain ten years of data.*

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, 2015	\$552,369	\$957,072	57.7%
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 Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2015	\$ -	\$ 17,261,518	0%	N/A	N/A
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.

RSI – Required Supplementary Information

General Fund

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

For the Year Ended December 31, 2015

	2015/2016 Biennial Budgeted Amounts		Actuals	Variance with Final Budget - Over (Under)
	Original	Final	2015	
REVENUES				
Taxes:				
Property	\$ 22,543,314	\$ 22,665,798	\$ 11,441,616	\$ (11,224,182)
Sales	25,704,900	25,704,900	13,324,363	(12,380,537)
Utility	18,579,275	18,749,875	8,715,086	(10,034,789)
Gambling	1,527,000	1,527,000	696,577	(830,423)
Other	909,000	909,000	412,009	(496,991)
Licenses and permits	1,229,500	1,229,500	769,224	(460,276)
Intergovernmental	3,727,600	3,548,517	1,876,177	(1,672,340)
Charges for services	9,358,027	9,560,027	4,412,759	(5,147,268)
Fines and forfeitures	2,781,800	2,780,600	1,200,188	(1,580,412)
Investment earnings	43,700	43,700	108,882	65,182
Rents and leases	598,400	598,400	355,370	(243,030)
Miscellaneous revenues	258,000	409,800	205,287	(204,513)
Total revenues	87,260,516	87,727,117	43,517,538	(44,209,579)
EXPENDITURES				
Current :				
General government	16,686,459	16,809,973	7,918,403	(8,891,570)
Public safety	53,465,376	53,345,880	26,257,715	(27,088,165)
Transportation	3,603,971	3,603,971	1,738,085	(1,865,886)
Physical environment	-	-	-	-
Economic environment	2,616,299	2,630,028	1,221,365	(1,408,663)
Health	38,100	38,100	18,584	(19,516)
Culture and recreation	10,169,202	10,344,634	4,728,148	(5,616,486)
Capital outlay:				
General government	-	12,601	13,906	1,305
Public safety	-	18,000	-	(18,000)
Culture and recreation	-	216,350	3,185	(213,165)
Transportation	-	-	-	-
Total expenditures	86,579,407	87,019,537	41,899,391	(45,120,146)
Excess (deficiency) of revenues over (under) expenditures	681,109	707,580	1,618,147	910,567
OTHER FINANCING SOURCES (USES)				
Transfers in	5,232,083	5,303,166	2,397,396	(2,905,770)
Transfers out	(5,410,000)	(5,941,000)	(3,595,000)	2,346,000
Total other financing sources and uses	(177,917)	(637,834)	(1,197,604)	(559,770)
Net change in fund balances	503,192	69,746	420,543	350,797
Fund balances - beginning	2,350,000	2,423,685	2,423,685	-
Fund balances - ending	\$ 2,853,192	\$ 2,493,431	\$ 2,844,228	\$ 350,797

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, 2015

	2015/2016 Biennial Budgeted Amounts		Actuals	Variance with Final Budget - Over (Under)
	Original	Final	2015	
REVENUES				
Intergovernmental	\$ 1,240,000	\$ 1,843,437	\$ 906,563	\$ (936,874)
Investment earnings	800	800	376	(424)
Total revenues	1,240,800	1,844,237	906,939	(937,298)
EXPENDITURES				
Current:				
Economic environment	626,000	1,229,437	530,494	(698,943)
Total expenditures	626,000	1,229,437	530,494	(698,943)
Excess (deficiency) of revenues over (under) expenditures	614,800	614,800	376,445	(238,355)
OTHER FINANCING SOURCES (USES)				
Transfers out	(614,000)	(614,000)	(455,761)	158,238
Total other financing sources and uses	(614,000)	(614,000)	(455,761)	158,238
Net change in fund balances	800	800	(79,316)	(80,117)
Fund balances - beginning	65,000	335,037	335,036	-
Fund balances - ending	\$ 65,800	\$ 335,837	\$ 255,720	\$ (80,117)

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, 2015

	<u>General Fund</u>
	<u>2015</u>
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 43,517,538
Reclassifications:	
Budgetary project revenues are reclassified to the General Fund for GAAP reporting	1,477,980
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>44,995,518</u>
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	41,899,391
Reclassifications:	
Budgetary project expenditures are reclassified to the General Fund for GAAP reporting	1,477,982
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>43,377,373</u>

Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Agency/ Pass-Through Agency Program Title	Federal CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipient	Note Reference
			From Pass- Through Awards	From Direct Awards	Total		
<u>U.S. Department of Agriculture Food and Nutrition Service</u>							
Cooperative Forestry Assistance	10.664		\$ -	\$ 500	\$ 500	\$ -	
<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	188,299	-	188,299	-	3
Capitalization Grants for Clean Water State Revolving Funds	66.458	L1100015	219,227	-	219,227	-	3
Total CFDA Number	66.458		407,526	-	407,526	-	
Passed through WA State Dept of Health:							
Capitalization Grants for Water State Revolving Funds Recovery	66.468	N21377	15,056	-	15,056	-	
<u>Office of Community Planning and Development</u>							
<u>U.S. Department of Housing and Urban Development:</u>							
2014 Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53-0001	-	162,474	162,474	11,250	
2015 Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0001	-	489,494	489,494	39,000	
Total CFDA Number	14.218		-	651,968	651,968	50,250	
<u>U.S. Department of Housing and Urban Development:</u>							
Passed through City of Richland:							
HOME Program	14.239	M-14-DC-53-0202	180,150	-	180,150	-	
HOME Program	14.239	M-15-DC-53-0202	154,136	-	154,136	-	
Total CFDA Number	14.239		334,286	-	334,286	-	
<u>U.S. Department of Justice</u>							
<u>Bureau of Justice Assistance, U.S. Department of Justice</u>							
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJBX-0201	-	2,756	2,756	2,756	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJBX-0544	-	22,355	22,355	8,605	
Passed through WA State Dept. of Commerce and Metro Drug Task Force:							
Edward Byrne Memorial Justice Assistance Grant Program	16.738	M14-31440-009	10,417	-	10,417	-	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	F15-31440-008	35,040	-	35,040	-	
Total CFDA Number	16.738		45,457	25,111	70,568	11,361	
<u>Criminal Division, U.S. Department of Justice</u>							
Equitable Sharing Program	16.922	WA 0030100	-	27,004	27,004	-	
<u>U.S. Department of Justice</u>							
Drug Enforcement Administration - Tri Cities Task Force							
	16.UNKNOWN	MOU	-	10,553	10,553	-	
U.S. Marshals Service - Fugitive Task Force							
	16.UNKNOWN	0324A A3403FWF4014R	-	9,239	9,239	-	
Federal Bureau of Investigation - Tri City Violent Crime Task Force							
	16.UNKNOWN	281D-SE-C93759	-	28,235	28,235	-	
Total CFDA Number	16.UNKNOWN		-	48,027	48,027	-	
<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		8,911	-	8,911	-	
<u>Federal Highway Administration, U.S. Department of Transportation</u>							
Passed through Washington State Dept. of Transportation:							
Highway Planning and Construction	20.205	HSIP-3406(009)	-	23,595	23,595	-	
	20.205	HSIP-000S(317)	-	48,540	48,540	-	
	20.205	STPUL-3413(006)	-	586	586	-	
	20.205	STPUL-3409(006)	-	689,414	689,414	-	
	20.205	STPUL-3457(002)	-	7,414	7,414	-	
	20.205	STPUL-3532(001)	-	16,215	16,215	-	
Total CFDA Number	20.205		-	785,764	785,764	-	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 811,236	\$ 1,538,374	\$ 2,349,610	\$ 61,611	

The accompanying notes are an integral part of this schedule.

Notes to Expenditures of Federal Awards Schedule
Year Ended December 31, 2015

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 - 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.

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.

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.

NOTE 4 - INDIRECT COSTS

The amount expended includes \$32,764 claimed as indirect cost recovery based on the City's cost allocation plan. The indirect portion of the overall composite rate is 21%. The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov