Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

City of Yakima

Yakima County

For the period January 1, 2013 through December 31, 2013

Published September 25, 2014

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Washington State Auditor

September 30, 2015

Mayor and City Council
City of Yakima
Yakima, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Federal Summary

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
16.710	ARRA- Public Safety Partnership and Community Policing Grants (Recovery Act)
16.710	Public Safety Partnership and Community Policing Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $382,117.

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Yakima
Yakima County
January 1, 2013 through December 31, 2013

2013-001 The City did not have adequate internal controls in place to ensure accurate reporting of the Schedule of Expenditures of Federal Awards.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure financial events are properly identified and presented completely. Controls should also ensure the criteria and accounting methodology applied to financial events is accurate. Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements and required schedules.

All local governments in Washington that spend federal funds are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report. U.S. Office of Management and Budget (OMB) Circular A-133 requires grantees to identify, in its accounts, all Federal program awards received and expended and to report all Federal awards expended on the SEFA each fiscal year.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- Although the City has procedures to perform a review of the financial statements for accuracy, the review was not adequate to detect and correct errors prior to audit.
- The City did not have a clear understanding of the SEFA reporting requirements for its Capitalization Grants for Clean Water State Revolving Funds loans and did not follow guidance provided in the *Budget, Accounting and Reporting Standards* (BARS) manual or OMB Circular A-133.

Cause of Condition

The City's SEFA preparation and review process did not take into consideration loans that could potentially be from federal sources and require disclosure on the schedule.

Effect of Condition

Our audit identified the following errors on the SEFAs provided for audit:

The City did not report $194,672 and $1,270,330 for the Drinking Water State Revolving Fund loan (CFDA 66.468) on the 2012 and 2013 schedules. This error is considered material to the 2013 SEFA and this grant was required to be audited. We identified this error during the subsequent audit. As a result, we have re-issued our 2013 report (originally dated September 25, 2014) to include this federal loan as a major program.

Recommendation

We recommend City management strengthen internal controls over SEFA reporting by:

- Employees responsible for the preparation of the SEFA review and understand reporting requirements outlined in the *Budget, Accounting and Reporting System* (BARS) manual and OMB Circular A-133.

- An effective independent review of the financial statements and SEFA is performed to ensure financial reporting is accurate and complete under all reporting requirements.

City's Response

Internal miscommunications and unfortunate timing combined with coding mistakes contributed to the City's omission of federal expenditures of loan funds from the 2013 SEFA. Generally, expenditures of federal funds are identified when federal money is received to reimburse such expenditures. Non federal monies are used to pay expenditures and then after such expenditures are reviewed to assure all federal requirements have been met, federal money is drawn to reimburse the City. In late December 2013 loan funds were received to reimburse expenditures on the Water Treatment plant under the federal drinking water loan program. The loan funds, although federal in nature, came to the City from the State of Washington and were incorrectly applied to a state funded water project that was also in progress at the time. Since the incoming reimbursement funds were mistakenly recorded as state funds, the corresponding expenditures were not classified as federal. The error in project classification was found and the funds *were applied to the correct project internally. However, the person discovering and fixing the error was not familiar with the federal loan program and so even though the project classification was corrected, the fact that the funds were federal in origin was not discovered until the 2014 audit. New controls will be implemented to review monies coming from the state to determine the original funding source at time of receipt.*

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart E, Section 500, states in part:

> (a) General. The audit shall be conducted in accordance with GAGAS . . .

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

> Significant deficiency. 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.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting System (BARS) Manual; Accounting; Accounting Principles and Internal Control; Internal Control states in part:

> Purpose and Definition of Internal Controls
>
> Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:
>
> Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations
> - Compliance with applicable laws and regulations
> - Reliability of financial reporting
>
> Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting . . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . .

Controls over Financial Reporting:

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
    - Only valid transactions are recorded and reported.
    - All transactions occurred during the period are recorded and reported.
    - Transactions are recorded and reported at properly valued and calculated amounts.
    - Recorded and reported transactions accurately reflect legal rights and obligations.

• Transactions are recorded and reported in the account and fund to which they apply.

• Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart B, Section 205, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

Subpart C, Section 300, states in part:

The auditee shall . . .

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

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

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

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310 . . .

Subpart C, Section 310, states in part:

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . .

(1) List individual Federal programs by Federal agency . . .

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available . . . .

The OMB Circular A-133 Compliance Supplement 2014. *Environmental Protection Agency CFDA 66.458 Capitalization Grants For clean Water State Revolving Funds IV. Other Information* states in part:

Subrecipients

CWSRF amounts are awarded by EPA to States as grants. The States then makes subawards in the form of loans to its subrecipients. Therefore, in determining the amount of Federal funds expended to be reported on the Schedule of Expenditures of Federal Awards (SEFA), subrecipients receiving CWSRF loans should include project expenditures incurred under these loans during the audit period as provided in OMB Circular A-133 §__205(a). These are subawards—not direct Federal loans—and, therefore, neither OMB Circular A-133 §__.205(b) nor §__.205(d) applies when calculating the amount of Federal funds expended.

If a subrecipient incurs expenditures under an approved CWSRF loan in one audit period for which it is not reimbursed by the State until a subsequent audit period, those expenditures should be reported on the subrecipient's SEFA in the year in which the outlay was made, regardless of when the subrecipient received reimbursement.

It also is important to appropriately identify these CWSRF loans as subawards because of the impact on which Federal agency is the cognizant or oversight agency. When completing the SFSAC, the subrecipient should indicate that a CWSRF loan received from the State is not a direct award by showing an "N" in Part III, Item 6(h).

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 Yakima
Yakima County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Yakima
Yakima, 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, each major fund and the aggregate remaining fund information of the City of Yakima, Yakima County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65*, Items Previously Reported as Assets and Liabilities*.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 to be a significant deficiency.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 16, 2014.

COMPLIANCE AND OTHER MATTERS

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

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

CITY'S RESPONSE TO FINDING

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 16, 2014, except for our report on the Schedule of Expenditures of Federal Awards and the matters discussed in the Schedule of Audit Findings and Responses 2013-001, for which the date is September 28, 2015.

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Yakima
Yakima County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Yakima
Yakima, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Yakima, Yakima County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Other Matters – Report Reissuance

This report, which replaces a previously issued report, has been reissued to report on CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds as an additional major program.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 16, 2014, except for our report on the CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds program, for which the date is September 28, 2015.

Independent Auditor's Report on Financial Statements

City of Yakima
Yakima County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Yakima
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yakima, Yakima County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 23.

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, each major fund and the aggregate remaining fund information of the City of Yakima, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Community Development funds, for 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 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 38, information on postemployment benefits other than pensions and pension trust fund information on pages 107 through 109 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 16, 2014, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 28, 2015.

Financial Section

City of Yakima
Yakima County
January 1, 2013 through December 31, 2013

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The City of Yakima's discussion and analysis offers readers of the City's financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2013. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal and in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The total assets of the City of Yakima exceeded its liabilities at December 31, 2013, by $317.0 million. Net position invested in capital (net of depreciation and related debt) account for 88.5% of this amount, with a value of $280.6 million. Of the remaining net position, $12.9 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net position increased by $7.1 million. Most of the increase was the result of capital grants and donations.
- As of December 31, 2013, the City of Yakima's governmental activities reported combined ending net position of $168.2 million, an increase of $3.0 million in comparison with the prior year. Of that amount, $153.7 million was invested in capital assets and $21.8 million was legally restricted for specific projects or programs. Unrestricted net position increased from negative $2.5 million to a negative $7.3 million primarily because of the liability for long-term post-employment benefits, which are continuing to increase.
- Unassigned fund balance for the General Fund was $9.7 million dollars at December 31, 2013. This balance represents 18.0% of total General Fund expenditures and transfers out.
- The City of Yakima's total long-term debt at December 31, 2013, was $96.7 million (about $56.1 million in Governmental activities and $40.6 million in business type activities), with a remaining capacity for non-voted General Obligation debt at $52.0 million, or 63.1% of the legal limit. Total debt increased by $17.8 million during the current fiscal year. Major components of the debt increase include:
    - Issuing $5 million of non-voted general obligation bonds to begin a street improvement initiative;
    - Entering into capital leases for $4.9 million of Public Safety equipment, and;
    - Borrowing $4.8 and $5.4 million respectively for Wastewater and Water facility improvements from state revolving loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Yakima's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements.

Government-Wide Financial Statements

There are two government-wide financial statements, the statement of net position and the statement of activities, which are designed to provide readers with a broad overview of the City of Yakima's finances in a manner similar to a private sector business. Both of the government-wide financial statements distinguish functions of the City of Yakima that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business type activities"). The governmental activities of the City of Yakima include a full range of local governmental services provided to the public, such as public safety (police, municipal court, fire, and building); public improvements (streets, traffic signals); parks and recreation; community development; and general administrative services. The business type activities of the City of Yakima include sanitation (solid waste disposal, wastewater treatment, and stormwater management); potable and irrigation water systems; transit; and airport.

The Statement of Net Position presents information on all of the City of Yakima's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of changes in the City's financial position. However, this is just one indicator of financial health of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The Statement of Activities (Changes in Net Position) presents information showing how the government's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting which requires that revenue be reported when earned and expenses be reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2013, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items may not be received or distributed in 2013.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Yakima, 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 of Yakima can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund, Community Development Fund, and the Cumulative Reserve for Capital Improvement Fund which are considered to be major funds, based on criteria established by GASB Statement #34. Data from the remaining governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements, outside of the basic financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements which use accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The City maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law and are adopted on a fund level. Capital outlays are approved on an item by item basis or project basis. A budgetary comparison statement is provided for the General Fund and all special revenue funds to demonstrate compliance with the budget.

Proprietary Funds

There are two types of proprietary funds: Enterprise and Internal Service. Enterprise Funds are used to report the same functions presented as business type activities in the government-wide financial statements. The City uses enterprise funds to account for its Solid Waste (Refuse); Wastewater; Domestic Water; Irrigation; Stormwater; Transit; and, starting March 2013, Airport functions. Internal Service Funds (the second type of proprietary funds) accumulate and allocate costs internally among the City's various functions. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Position to the business type column on the Government-Wide Statement of Net Position, you will notice that the total net position agree and, therefore, need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Individual fund data for each of the nonmajor proprietary funds is provided in the form of combining statements. The proprietary fund combining statements follow the governmental fund combining statements in this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Yakima's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Yakima has two fiduciary funds—a Firefighter pension trust fund, and an agency fund. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements, in the Basic Financial Statements section.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Yakima's net position total $317.0 million at December 31, 2013. The following table reflects the condensed Government-Wide Statement of Net Position with comparative totals for 2012.

NET POSITION - RESTATED FOR AIRPORT

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012 (1)	2013	2012 (1)
Assets						
Current and Other Assets	$53,341,983	$50,492,111	$28,737,216	$29,391,887	$82,079,199	$79,883,998
Capital Assets	184,021,260	174,014,941	167,253,031	154,341,115	351,274,291	328,356,056
Total Assets	237,363,243	224,507,052	195,990,247	183,733,002	433,353,490	408,240,054
Liabilities						
Payables and Other Liabilities	13,006,442	13,246,345	6,613,661	5,848,926	19,620,103	19,095,271
Long-term Liab Outstanding	56,138,372	46,019,016	40,618,312	33,201,944	96,756,684	79,220,960
Total Liabilities	69,144,814	59,265,361	47,231,973	39,050,870	116,376,787	98,316,231
Net Position						
Inv in Cap Assets, Net / Rel Debt	153,718,371	149,221,688	126,845,875	122,444,744	280,564,246	271,666,432
Restricted	21,768,422	18,548,336	1,760,713	2,253,299	23,529,135	20,801,635
Unrestricted	(7,268,364)	(2,528,333)	20,151,686	19,984,090	12,883,322	17,455,757
Total Net Position	$168,218,429	$165,241,691	$148,758,274	$144,682,133	$316,976,703	$309,923,824

(1) Net Position for Business-Type Activities are restated for the merger of the Yakima Air Terminal into the City as of February 28, 2013. Detail of the restatement is included in Note 12.

The City of Yakima's total assets stand at $433.4 million as of December 31, 2013. Of this amount, $351.3 million is accounted for by capital assets, which includes some infrastructure and construction in progress. Out of $184.0 million in capital assets reported in Governmental activities at December 31, 2013, $90.7 million (49.3%) is accounted for by infrastructure acquisitions (including the right-of-way land associated with these projects and land under the road).

Of the remaining City assets, approximately $63.5 million was accounted for in cash, cash equivalents, and investments, $13.1 million in accounts receivable, $4.7 million in notes receivable, and $0.8 million spread among miscellaneous assets.

At December 31, 2013, the City had outstanding liabilities of $116.4 million, with $96.8 million in long-term liabilities. Of the long-term liabilities, $6.2 million was due within a year, with the remainder due over an extended period of time. The deficit in "unrestricted" net position in the governmental funds increased because the City has long-term commitments that are greater than currently available resources, primarily in pension and other post-employment benefits for certain police officers and firefighters. Refer to the notes to the financial statements (Note 7) for a more in depth discussion of long-term debt.

"Payables and Other Liabilities" for total Governmental and Business type activities total $19.6 million, and include $12.0 million in accounts payable, $7.0 million in accrued liabilities and $0.6 million in liabilities payable from restricted net position.

The largest portion of the City's net position (88.5%) reflects its investment in capital, less any outstanding related debt used to acquire those assets. The City's capital assets, which are used to provide services to citizens, are investments in capital and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 7.4% of the City's net position is subject to external restrictions on how they may be used (restricted by the Revised Code of the State of Washington or by contractual agreements with parties outside of the primary government). The remaining balance of $12.9 million (unrestricted net position) represents the amount that may be used to meet the City's ongoing obligations.

At December 31, 2013, the City of Yakima reports positive balances in all three categories of net position, for the government as a whole, as well as for governmental activities and business type activities.

The Statement of Activities (Changes in Net Position)

The City of Yakima's total net position is increased by $7.1 million in 2013. Net position for governmental activities increased by $3.0 million while business type activities increased by $4.1 million.

Total revenues for the City of Yakima were $129.3 million in 2013. Governmental activities provided $79.7 million (61.7%), while business type activities added $49.6 million (38.3%).

Expenses for the year totaled $123.1 million, with governmental activities accounting for $84.0 million or 68.3% and business type activities accounting for $39.0 million or 31.7%. Key elements in changes in net position are shown in the following table.

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charges for Services	$7,109,728	$6,714,501	$40,031,511	$38,863,559	$47,141,239	$45,578,060
Operating Grants & Cont's	10,092,583	10,847,928	2,702,735	2,712,951	12,795,318	13,560,879
Capital Grants & Cont's	12,818,937	4,882,765	1,761,400	2,117,984	14,580,337	7,000,749
General Revenues						
Property Tax	15,988,834	15,565,053	0	0	15,988,834	15,565,053
Sales Tax	21,305,977	19,599,338	5,081,303	4,762,435	26,387,280	24,361,773
Other Taxes	12,289,379	12,453,776	0	0	12,289,379	12,453,776
Other	141,191	350,616	6,188	11,348	147,379	361,964
Total Revenues	79,746,629	70,413,977	49,583,137	48,468,277	129,329,766	118,882,254
Expenses						
General Government	$8,744,134	$8,668,467	$0	$0	8,744,134	8,668,467
Security of Persons & Prop	47,615,384	42,995,833	0	0	47,615,384	42,995,833
Physical Environment	794,227	658,353	0	0	794,227	658,353
Transportation	13,075,464	11,529,609	0	0	13,075,464	11,529,609
Economic Environment	4,406,712	3,949,760	0	0	4,406,712	3,949,760
Mental & Physical Health	17,774	23,859	0	0	17,774	23,859
Cultural & Recreational Env	8,205,245	7,521,672	0	0	8,205,245	7,521,672
Interest on Long-Term Debt	1,174,762	1,122,075	0	0	1,174,762	1,122,075
Transit	0	0	8,806,447	9,084,940	8,806,447	9,084,940
Airport	0	0	1,406,774	0	1,406,774	0
Refuse	0	0	4,808,311	4,678,575	4,808,311	4,678,575
Wastewater	0	0	14,255,246	13,634,191	14,255,246	13,634,191
Water	0	0	6,367,483	5,834,230	6,367,483	5,834,230
Irrigation	0	0	2,070,543	1,891,067	2,070,543	1,891,067
Stormwater	0	0	1,322,448	1,317,927	1,322,448	1,317,927
Total Expenses	84,033,702	76,469,628	39,037,252	36,440,930	123,070,954	112,910,558

	— Governmental Activities —		— Business-Type Activities —		Total	
	2013	2012	2013	2012	2013	2012
Increases in Net Position Before						
Non-operating Sources (Uses)	($4,287,073)	($6,055,651)	$10,545,885	$12,027,347	$6,258,812	$5,971,696
Gain/loss Sale Capital Assets	403,142	73,267	(97,515)	6,566	305,627	79,833
Transfers	6,372,224	6,172,065	(6,372,224)	(6,191,634)	0	(19,569)
Debt issue Cost/Premium	488,445	0	0	0	488,445	0
Change in Net Position	2,976,738	189,681	4,076,146	5,842,279	7,052,884	6,031,960
Net Position - Beginning	165,241,691	165,052,010	$144,682,131	125,742,862	309,923,822	290,794,872
Add Airport as of 2/28/13	0	0	0	13,096,990	0	13,096,990
Net Position - Ending	$168,218,429	$165,241,691	$148,758,277	$144,682,131	$316,976,706	$309,923,822

Governmental Activities

Within governmental activities, tax revenue accounted for 62.2% of total revenue sources, with grants and contributions accounting for 28.7%. The remaining 9.1% of revenue was provided by charges for services, interest income, and miscellaneous revenues. (Note: the revenue indicators in the following charts do not include one-time only financing sources, such as proceeds from new debt or the sale of assets.)

Governmental activities increased net position by $3.0 million or 1.8%. Total revenues increased by 80.7% million or $9.3. Significant fluctuations in revenue are as follows:

- Capital Grants & Contributions increased by $7.9 million, primarily because 2013 includes the second major railroad grade separation project that is building a new underpass which is mostly funded by grants.
- Conversely, Operating Grants and Contributions decreased by $0.8 million as a result of budget cuts and sequestration at the federal level.
- Total taxes increased by $47.6 million or $2.0 from $49.6 million to 13.3% million.
  - Property Taxes increased 2.7%, consisting of a 1.0% increase in the base levy (capped by state law); with the balance resulting from new construction and refunds.
  - Sales Tax increased by $1.7 million or 8.7% from 2012. The City continues to experience significant improvement in sales tax, buoyed by a good year in the agricultural sector and growth in the construction industry after the lull of the recession.
- Transfers from Business Type Activities consist of in-lieu utility taxes. This category increased by $0.2 million or 3.2% primarily because of rate and usage increases in the utilities.

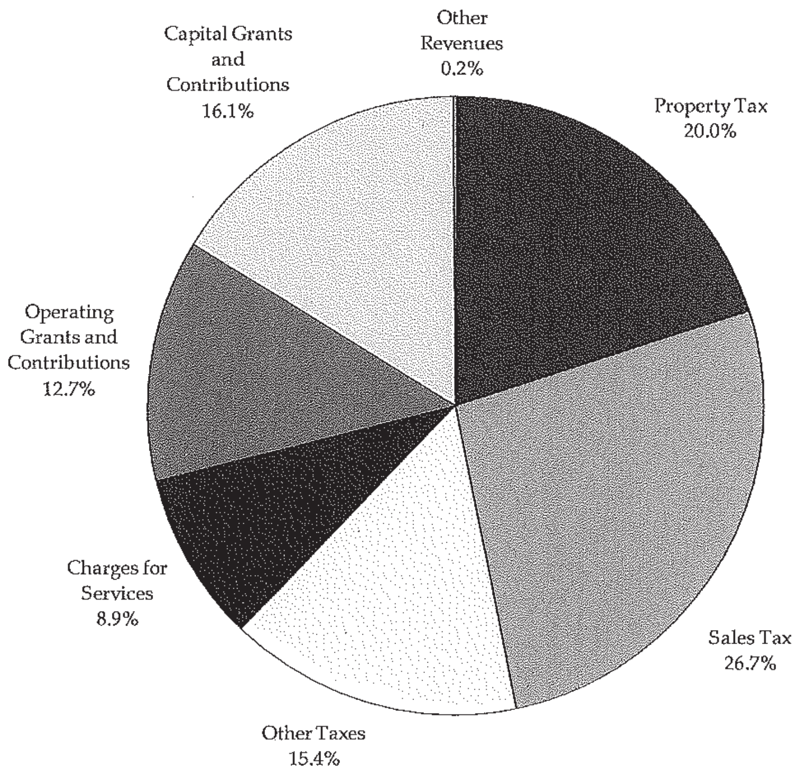
The largest program expenses consist of Security of Persons and Property (public safety) - 56.7%; Transportation – 15.5%; and General Government – 10.4%. These programs accounted for 82.6% of total governmental expenses.

For the most part, changes in expenses were the result of the implementation of strategic initiatives in response to community input since the revenue started to rebound from the lows experienced in the midst of the recent recession. The major exceptions to this rule are generally tied to grant activity. Additional explanations follow:

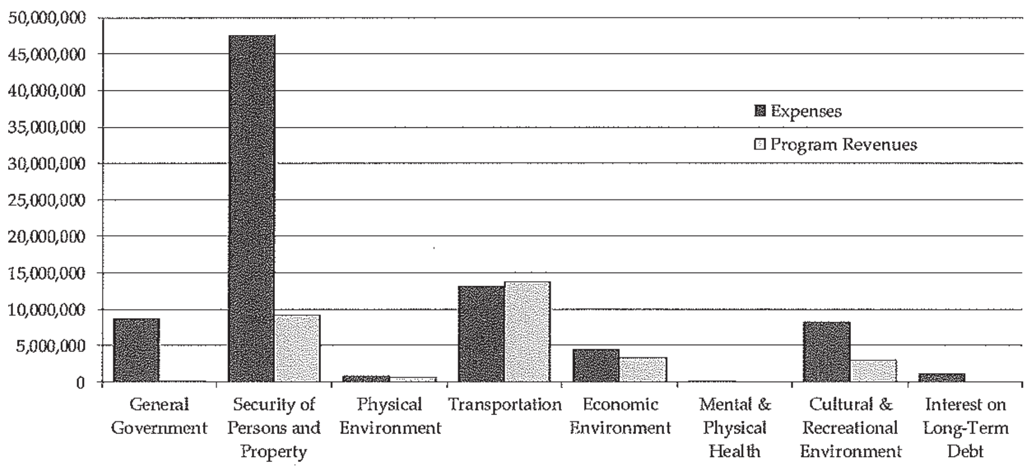
- Security of Persons and Property demonstrated an increase of $4.6 million or 10.7% primarily because of an expansion of the Police take-home vehicle program. As part of this initiative, the Police fleet was moved from Equipment Rental and Replacement and is being managed by the Police Department. Therefore, depreciation expense for the entire fleet was moved from the Internal Service Fund to this category. Public safety remains City Council's highest budget priority.
- Transportation increased by $1.5 million, primarily because the first underpass was placed in service in 2012, so 2013 was the first full year of depreciation on that asset.

Following are graphs which illustrate revenue by source and expenditures by program for governmental funds in 2013.

REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



Business Type Activities

Of the $49.6 million in business type revenues, 80.7% was provided by charges for services, with the remaining amount provided by grants, contributions, transit sales tax and interest income. Overall, business type revenues demonstrated an increase of $1.1 million or 2.3% over 2012.

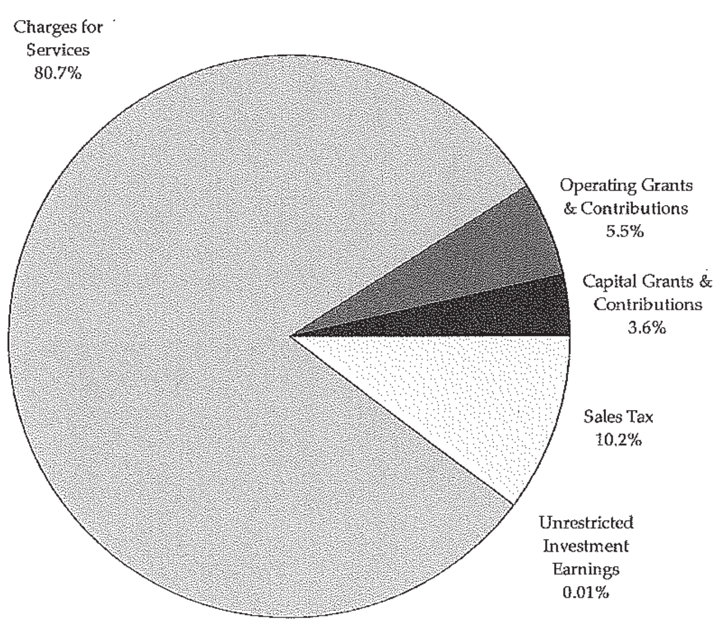
Business type revenues experienced the following fluctuations:

- Charges for Services increased by $1.2 million or 3.0%. The Wastewater and Irrigation utilities had rate increases as of January, 2013 of 5.1%, and 5.5% respectively.
- The City took sole ownership of the Yakima Air Terminal as of March 1, 2013, so the 2013 statements include 10 months of operating activity for the Airport.

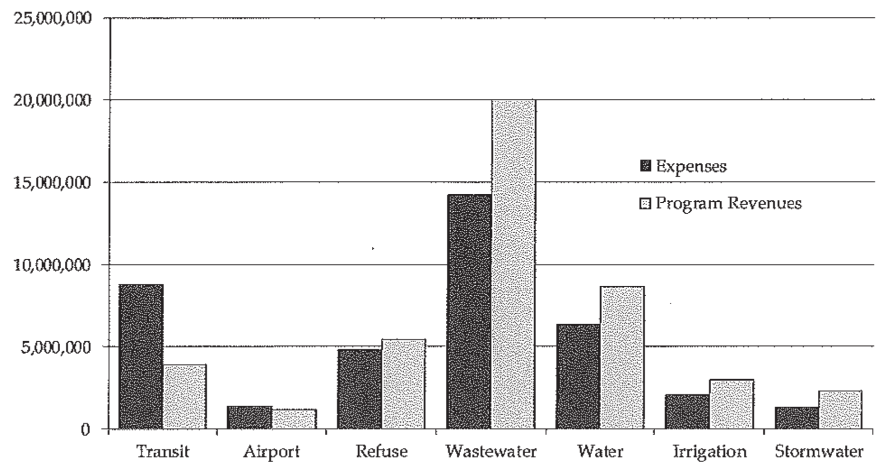
Of the $39.0 million in business type expenses, 36.5% are associated with the Wastewater program and with Transit, domestic water programs represent about 22.6%, Refuse 16.3%, Irrigation 12.3% Stormwater 5.3% and Airport 4.1% . Generally, changes in expenses are in line with rate increases and additional depreciation on donated assets.

The following charts depict the expenses and program revenues, with a breakdown of revenues by source for the business type activities.

REVENUES BY SOURCE – BUSINESS TYPE ACTIVITIES



EXPENSES AND PROGRAM REVENUES – BUSINESS TYPE ACTIVITIES



Charges for services represent the majority 3.4% of revenue in these funds. The only fund that does not rely heavily on charges for service is the Transit fund, which is subsidized by a voter approved local option sales tax of 0.3% and a federal operating grant.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Yakima uses fund accounting to ensure and demonstrate compliance with finance related legal and regulatory requirements. Following is a financial analysis of the City's governmental and proprietary funds.

Governmental Funds Analysis

The General Fund; the Community Development Fund (which administers the City's Community Development Block Grants); and the Cumulative Reserve for Capital Project Fund (which is being used to account for the railroad separation underpass construction) are the City's major funds (as defined in GASB #34) in 2013. Together these funds account for 60.4% of total governmental fund assets and 48.7% of total governmental fund balances.

The focus of the City of Yakima's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of December 31, 2013, the City's governmental funds reported combined fund balances of $26.9 million. Of this total amount, about $9.7 million (36.1%) is unassigned and available for spending within these funds. About $0.7 million is not spendable (perpetual care), $10.1 million is restricted (primarily for transportation, capital improvements, and public safety), $4.0 million is committed primarily for transportation system improvements and $2.4 million is assigned primarily for public safety.

The General Fund is the chief operating fund of the City of Yakima. At the end of the 2013 fiscal year, unassigned fund balance of the General Fund was $9.7 million. Unassigned fund balance is about 18.0% of total general fund expenditures and transfers out (which represents about a 2.2 month reserve). Total assets in the General Fund amounted $16.8 to million, accounting for 40.1% of total governmental fund assets.

The fund balance of the City of Yakima's General Fund decreased by $46,193, virtually remaining the same, during the current fiscal year. As sales tax revenue started to rebound Council approved strategic initiatives to enhance primarily Public Safety and Transportation.

The General Fund accounts for 60.0% of all governmental fund revenue and 52.4% of all expenditures.

The Community Development fund has an increase of $329,261 in fund balance. This fund balance fluctuates slightly from year to year depending on the timing of the receipt and spending of program income. The Cumulative Reserve for Capital Improvement Fund added $170,562, as most of the expense is covered by grant reimbursements.

Other governmental funds ended with a net increase in fund balances of $3,086,392. Over two-thirds of this amount is the unspent proceeds of a $5.0 million bond issued for street renovation and the $4.9 lease/purchase of Public Safety equipment. All other funds had only modest changes in fund balance.

Enterprise Funds Analysis

Transit, Wastewater, Domestic (potable) Water, and Irrigation Water are considered major funds in the City's 2013 (GASB 34) Financial Statements while Refuse and Stormwater are nonmajor funds. Because the regional airport was acquired by the City as of March 1, 2013, the 10 months of operating activity is presented in a separate column on the "Statement of Revenues, Expenses and Changes in Fund Net Potions-Proprietary Funds".

As of December 31, 2013, the City's enterprise funds (internal service fund balances are treated entirely as governmental activities) reported combined net position (without the Airport) of $135.9 million, with $66.4 million or approximately 48.9% being contributed by the Wastewater fund. Of the $135.9 million, about $114.6 million (84.3%) of net position is accounted for by investment in capital assets, net of related debt, $1.8 million is restricted for debt service and $19.5 million is unrestricted. The Notes to the Financial Statements (Note 10) present segment information that is grouped according to revenue bond requirements for these business type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Changes in Budget

The following table shows the 2013 General Fund Adopted (original) Budget, the amended (final) Budget, Actual revenue and expenditure amounts, and the variance of Actuals compared to the Final budget.

CHANGE IN GENERAL FUND BALANCE

	----- Budgeted Amounts -----		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Taxes and Special Assessments	$42,064,500	$42,689,500	$43,770,415	$1,080,915
Licenses and Permits	731,700	731,700	817,750	86,050
Intergovernmental Revenues	2,560,105	2,670,719	2,683,040	12,321
Charges for Services	5,195,480	5,195,480	4,965,671	(229,809)
Fines and Forfeits	1,555,000	1,555,000	1,603,138	48,138
Interest	250,000	250,000	100,906	(149,094)
Other Revenues	40,850	40,850	40,285	(565)
Total Revenues	$52,397,635	$53,133,249	$53,981,205	$847,956

	----- Budgeted Amounts -----		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Expenditures				
Current				
General Government	$12,534,795	$12,595,794	$12,100,404	$495,390
Security of Persons and Property	36,299,597	36,513,333	36,329,610	183,723
Physical Environment	933,496	984,511	953,034	31,477
Transportation	30,000	0	0	0
Economic Environment	883,719	1,047,332	1,077,916	(30,584)
Mental & Physical Health	18,000	18,000	17,774	226
Capital Outlay				
General Government	15,000	95,000	35,326	59,674
Security of Persons and Property	0	401,520	343,448	58,072
Debt Service				
Principal Retirement	74,419	74,419	40,482	33,937
Interest	12,690	12,690	80,815	(68,125)
Total Expenditures	$50,801,716	$51,742,599	$50,978,809	$763,790
Excess (Deficiency) of Revenues Over (Under) Expenditures	$1,595,919	$1,390,650	$3,002,396	$1,611,746
Other Financing Sources (Uses)				
Transfers In	40,000	40,000	0	40,000
Transfers (Out)	(2,502,275)	(3,002,275)	(3,019,305)	17,030
Intergovernmental Agreements	(39,095)	(39,095)	(39,095)	0
Sale of Capital Assets	0	0	9,765	(9,765)
Comp. for Loss of Gen. Capital Assets	0	0	46	(46)
Total Other Financing Sources (Uses)	($2,501,370)	($3,001,370)	($3,048,589)	($47,219)
Net Change in Fund Balances	($905,451)	($1,610,720)	($46,193)	$1,564,527
Fund Balances - January 1	$8,483,190	$8,483,190	$0	($8,483,190)
Change in Reserve for Inventory	0	0	9,779,648	9,779,648
Fund Balances - December 31	$7,577,739	$6,872,470	$9,733,455	$2,860,985

During the year, the 2013 General Fund Expenditure budget was increased from $50.8 million to $51.7 million, or by about $0.9 million. The significant increases in appropriations are summarized as follows:

- $0.7 million in outstanding encumbrances / commitments which were rebudgeted from the prior year.
- $0.2 million to cover miscellaneous programs supported primarily by grants or additional charges for service.
- Transfers Out was also increased by $0.5 million to maximize the required match for the Local Infrastructure Financing Tool (LIFT) to be used in an economic redevelopment area that was formerly a lumber mill site.

Most of these budget adjustments were to be funded from the General Fund reserves, growth in sales tax, and/or grants and additional charges for services.

General Fund Budget to Actual

Total General Fund revenues were originally budgeted at about $52.4 million, which included a conservative estimate for sales tax. As sales tax growth continued into 2013, a budget amendment was made to increase the revenue by $625,000, to be used primarily to enhance transfers for capital improvements in a redevelopment area of $500,000. Actual revenue of $54.0 million resulted in a variance of $0.8 million, a gain of 1.6% over the amended budget still primarily in the area of sales tax. Charges for services were less than budget estimates by $0.2 million primarily because the Engineering division experienced position vacancies, which resulted in fewer expenses to charge out to projects.

General Fund expenditures, including other financing uses, totaled $54.0 million compared to the final budget of $54.7 million – resulting in a positive variance of $0.7 million or 1.3%. Because revenues exceeded estimates and the General Fund balance exceeds the minimum 16.7% of operating expenditures, most of the positive variance generated by position vacancies and other spending constraints was transferred to shore up capital and risk management funds.

The General Fund budget is typically built assuming positive variances in both revenue and expenditures. Revenue is conservatively estimated, while expenditure estimates utilize highest probable costs. Historically, actual amounts have been close to "break even", with actual revenues slightly exceeding expenditures. 2013 is not an exception, with a net decrease in fund balance of only $46,193.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Yakima's total investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2013, amounts to $351.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, infrastructure, and construction in progress on buildings and systems.

Major capital asset events during the 2013 fiscal year included the following:

- A variety of projects for street expansion/repair were ongoing during the year. About $14.3 million was spent for infrastructure in 2013. The major projects included the second phase of a railroad grade separation project (about $8.7 million) funded by state and federal grants, and a state loan; and a street renovation project (about $3.8 million) funded by a non-voted general obligation bond. The 2014 budget includes over $28.0 million in planned projects, funded primarily by non-voted general obligation bonds, state and federal grants and loans, matched by fuel tax and real estate excise tax. The major project in 2014 is a continuation of the street renovation program estimated to cost about $16.5 million, funded primarily by issuance of non-voted general obligation bonds. The second phase of a railroad grade separation project was not completed in 2013, and will be continued with an estimated cost of about $4.9 million.
- In the area of Public Safety, the Police Department expanded their take-home vehicle program, and added 74 police cars to the fleet, costing about $3.7 million, and Fire replaced an apparatus with a cost of $0.4 million. Both were funded by a lease/purchase program sponsored by the State Treasurer.
- Vehicles, street equipment, and trucks were added to the Equipment Rental fleet as either additional equipment or replacements during the year, at a cost of $2.0 million.
- Wastewater invested $12.0 million on capital improvements in 2013, including work on an anaerobic digester and related biogas enhancement projects, electrical upgrades at the treatment plant, changes to the outflow into the Yakima River, and collection system pipe installation/replacement. Major projects included in the 2014 budget: $5.8 million for improvements to biosolids processing; $4.2 million for sanitary sewer line extension; and $1.8 million to complete the outflow project. All of these projects are being done in accordance with

adopted Facilities and Biosolids Management plans. These projects are being partially funded by intergovernmental loans through state capital programs and capital reserves. When loan funding is exhausted, a revenue bond will be issued to complete the projects. At this point in time, we anticipate issuing about $6.0 million of revenue bonds in late 2014.

- The Domestic Water Treatment plant capital program spent about $6.3 million in 2013, with the two major projects being the continuation of the installation of an automated meter reading system--$4.8 million, and improvements to the treatment plant lagoons--$1.5 million. Major projects in the 2014 budget includes $2.1 million to complete the treatment plant lagoons (partly funded by a state Public Works Trust Fund Loan), and $1.5 million for modifications to the Naches River at the treatment plant intake. Projects are being funded by state loan programs, capital reserves and current capital transfers from the operating fund.

CAPITAL ASSETS (NET OF DEPRECIATION) - RESTATED FOR AIRPORT

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012 (1)	2013	2012 (1)
Capital Assets						
Land	$14,549,645	$14,241,145	$5,582,170	$5,582,170	$20,131,815	$19,823,315
Building	36,184,041	37,243,214	33,525,476	35,525,090	69,709,517	72,768,304
Impr Other Than Building	8,344,523	6,712,126	78,544,766	79,094,193	86,889,289	85,806,319
Machinery and Equipment	18,385,687	15,521,794	17,973,703	19,798,704	36,359,390	35,320,498
Infrastructure	90,737,761	92,713,816	0	0	90,737,761	92,713,816
Intangibles	0	0	720,105	764,131	720,105	764,131
Construction in Progress	15,819,603	7,582,846	30,906,794	13,576,827	46,726,397	21,159,673
Total Capital Assets	$184,021,260	$174,014,941	$167,253,014	$154,341,115	$351,274,274	$328,356,056

(1) Net Capital Assets for Business-Type Activities are restated for the merger of the Yakima Air Terminal into the City.

Additional information on the City of Yakima's capital assets can be found in Note 4 of this report.

Long-Term Debt

On December 31, 2013, the City of Yakima had total bonded debt outstanding of about $42.2 million. Of this amount, $23.1 million is classified as governmental activity and backed by the full faith and credit of the City. The remaining $19.2 million represents bonds secured solely by specific revenue sources (i.e. revenue bonds).

In 2013 the City issued $5.0 million limited tax general obligation bonds to begin a street renovation program. The City of Yakima's total bonded debt had a net increase of $1.2 million during 2013, when the debt service payments are netted from the new bond issue.

The City participates in a loan program administered by the State's Department of Community Development, which is included as Intergovernmental loans in the long-term debt schedules. Infrastructure improvements, such as street, bridge, water, or sewage projects, are eligible to compete for loan awards. This type of funding is preferred because the interest rates for new loans range from 0.5% to 1.5% based on the percentage of local match available for the project (i.e. the higher the match, the lower the interest rate). In 2013, the City borrowed $10.6 million for Water and Wastewater projects utilizing this State program. Debt service requirements on these loans are being incorporated in the applicable rate studies.

The City has also participated with the Washington State Office of the State Treasurer's Local Option Capital Asset Lending (LOCAL) program, which is a low-cost capital leasing program. The City borrowed $4.9 million through this program in 2013 to fund public safety equipment.

The City's remaining capacity for non-voted debt on December 31, 2013, was approximately $52.0 million in comparison to the total legal limit of $82.4 million. The City has a policy of retaining 30% of its non-voted capacity for emergencies. The City of Yakima was upgraded in 2008 to an "A+" rating from Standard & Poor's for general obligation debt. This rating was maintained throughout the recession, and was affirmed on December 7, 2012, for any 2013 activity. In May, 2014 the City was again upgraded to "AA-" in conjunction with accessing debt markets for a street renovation project. The combined Water and Wastewater utility was affirmed at "AA-" for the revenue bond refunding accomplished in May 2012. A summary of the City's bonded debt follows. Additional information on the City's long-term debt can be found in Note 7.

OUTSTANDING DEBT - RESTATED FOR AIRPORT

Governmental Activities		Business-Type Activities		Total	
2013	2012	2013	2012	2013	2012
$23,053,078	$20,501,653	$0	$0	$23,053,078	$20,501,653
0	0	19,190,000	20,525,000	19,190,000	20,525,000
3,501,035	3,737,410	21,067,897	12,270,590	24,568,932	16,008,000
428,800	575,000	0	0	428,800	575,000
16,474,396	13,365,341	0	0	16,474,396	13,365,341
7,307,299	7,018,769	0	0	7,307,299	7,018,769
5,373,764	820,843	360,412	406,361	5,734,176	1,227,204
$56,138,372	$46,019,016	$40,618,309	$33,201,951	$96,756,681	$79,220,967

ECONOMIC FACTORS

There are a number of factors that have a fiscal impact on various revenues of the City, including voter approved initiatives over the last few years, as well as changes in State and Federal regulations. Following is a list of significant factors, which have an impact on the City's revenues. The City is committed to the continued application of sound fiscal management practices to ensure balanced budgets are maintained and critical core services are provided to our citizens.

- In 2001 state voters approved Initiative 747, which capped property tax levy growth each year at a maximum of 1%, plus any additions for annexations and new construction. This initiative represents a restriction on local government revenue growth, which makes budget balancing more difficult because actual inflation rates have grown at an average of 3 times the 1% limitation.
- The Downtown area is in transition from a retail center to a central business district. The City has actively participated in several projects to upgrade the downtown over the past 5 years, including infrastructure and pedestrian improvements in the downtown core, and the upgrade/expansion of the historic City owned Capitol Theatre, located in the center of the downtown area. The City completed a Downtown Master Plan in 2013, and design work on projects identified in the Plan is in process in 2014.
- The unemployment rate (8.1% as of April, 2014) in the County continues to be higher than the state and national average. The County's predominant industry is agriculture and related support. This industry has a history of high unemployment rates, seasonal employment, and low median household income (Yakima is about 70% of the state average). However, the agriculture based local economy was not as negatively affected in the recent severe national recession as many other cities around the state and country. Yakima County MSA is experiencing growth in total employment. Between April of 2013 and 2014, the Yakima County nonfarm labor market added 800 jobs, a 1.0% upturn. All employment categories, with the exception of "Professional and Business Services" experienced an increase from April of 2013.
- Efforts to diversify our economic base include expansion of the current community college to offer four-year degree programs through major state institutions, including Washington State University

and University of Washington. Additionally, a new medical school began instruction in late 2008 - the first class graduated in May, 2011.

- The next major economic development initiative that the City is embarking on is a competitive state redevelopment/tax increment program called Local Infrastructure Financing Tool (LIFT), as set forth in RCW 39.102. The redevelopment area consists of 556 acres adjacent to Interstate 82, formerly used as a sawmill and plywood plant. The City received an award of up to $1 million per year for 25 years from the state to support required infrastructure improvements to service the new mixed use proposed development. The first year of participation by the state was 2011. Because of all the complexities surrounding a project of this scope, it is still in a planning stage.

The 2014 budget is balanced for all funds, within guidelines established by city management, to accomplish municipal service levels and priorities set by City Council. The City of Yakima has established a consistent track record of living within our means, and was awarded for that strong budgetary performance with an upgrade in our credit rating by Standard and Poors. For the 2014 budget, the major revenues were estimated assuming the continued growth of the local economy. This growth was allocated to programs in alignment with the Council's strategic priorities of public safety; improving the built environment; economic development; public trust and accountability; and partnership development. The citizen's responded positively to the category of "improving the built environment" as they passed a City Charter amendment to allocate an additional $2 million of existing tax revenues each year for street renovation and maintenance. This additional allocation was included in the 2014 budget, and will be used to repay $13.1 million of councilmanic bonds issued in May, 2014 to continue necessary street renovations. To date, the improvements in revenues are continuing, and General Fund is within the expected parameters. Overall, citywide budget results are performing as expected.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Yakima's finances for all those with an interest in the government's finances. This report, along with the City's published budget documents are posted on the City's website at www.yakimawa.gov/services/finance. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Yakima – Finance Department, 129 North Second Street, Yakima, WA 98901.

STATEMENT OF NET POSITION

December 31, 2013

With comparative totals for December 31, 2012

	Governmental Activities	Business Type Activities	Total 2013	Total 2012
Assets				
Cash and Cash Equivalents (as restated)	$12,419,286	$4,799,929	$17,219,215	$17,152,452
Investments at Amortized Cost	25,515,240	18,947,449	44,462,689	40,085,878
Receivables (Net) (as restated)	8,547,800	2,647,869	11,195,669	12,738,372
Due from Other Government Units (as restated)	1,673,071	185,412	1,858,483	1,749,100
Interfund Receivable	0		0	435,819
Notes Receivable	4,673,455	0	4,673,455	4,855,632
Inventories	433,467	225,618	659,085	824,282
Prepaids (as restated)	0	0	0	5,637
Unamortized Debt Issue Cost	0	170,226	170,226	187,793
Restricted Assets				
Cash and Cash Equivalents	67,189	953,882	1,021,071	990,462
Fiscal Agent	12,475	0	12,475	12,474
Investments at Amortized Cost	0	806,831	806,831	846,097
Capital Assets (Net of Accumulated Depreciation)				
Land (as restated)	14,549,645	5,582,170	20,131,815	19,823,315
Buildings (as restated)	36,184,041	33,525,476	69,709,517	72,768,304
Improvements Other Than Buildings (as restated)	8,344,523	78,544,782	86,889,305	85,806,319
Machinery & Equipment (as restated)	18,385,687	17,973,703	36,359,390	35,320,498
Construction in Process (as restated)	15,819,603	30,906,795	46,726,398	21,159,673
Intangibles (as restated)	0	720,105	720,105	764,131
Infrastructure	90,737,761	0	90,737,761	92,713,816
Total Capital Assets	184,021,260	167,253,031	351,274,291	328,356,056
Total Assets	$237,363,243	$195,990,247	$433,353,490	$408,240,054
Liabilities				
Accounts Payable & Other Current Liabilities (as restated)	$8,218,097	$3,688,632	$11,906,729	$11,527,151
Accrued Liabilities (as restated)	4,077,398	2,925,029	7,002,427	6,107,325
Due to Other Government Units (as restated)	91,961	0	91,961	92,499
Interfund Payable	0	0	0	435,819
Liabilities Payable from Restricted Assets	618,986	0	618,986	932,477
Noncurrent Liabilities				
Special Assessment Debt w/Gov't Commitment	428,800	0	428,800	575,000
Due Within One Year (as restated)	3,272,357	2,943,959	6,216,316	5,580,059
Due in More than One Year	52,437,215	37,674,353	90,111,568	73,065,901
Total Liabilities	69,144,814	47,231,973	116,376,787	98,316,231
Net Position (See Note 9)				
Invested in Capital Assets, Net of Related Debt (as restated)	153,718,371	126,845,875	280,564,246	271,666,432
Restricted				
Highways & Streets	3,354,260	0	3,354,260	1,760,263
Culture & Recreation	582,462	0	582,462	460,790
Debt Service	509,961	1,760,713	2,270,674	2,412,576
Capital Projects	8,272,691	0	8,272,691	6,247,456
Other Purposes (as restated)	9,049,048	0	9,049,048	9,920,547
Unrestricted	(7,268,364)	20,151,686	12,883,322	17,455,757
Total Net Position (as restated)	$168,218,429	$148,758,274	$316,976,703	$309,923,821

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Cont's	Program Revenues: Capital Grants & Cont's	Net (Expense) Revenue and Changes in Net Position: Gov't Activities	Net (Expense) Revenue and Changes in Net Position: Business Type Activities	Total 2013	Total 2012
Governmental Activities								
General Government	$8,744,134	$32,191	$45,588	$0	($8,666,355)	$0	($8,666,355)	($8,614,141)
Sec of Persons & Property	47,615,384	2,075,275	6,512,495	548,301	(38,479,313)	0	(38,479,313)	(33,040,517)
Physical Environment	794,227	618,713	0	0	(175,514)	0	(175,514)	113,579
Transportation	13,075,464	245,573	1,913,724	11,597,592	681,425	0	681,425	(6,098,029)
Economic Environment	4,406,712	1,519,931	1,536,028	308,500	(1,042,253)	0	(1,042,253)	(674,849)
Mental & Physical Health	17,774	0	0	0	(17,774)	0	(17,774)	(23,859)
Cultural & Recreational Env	8,205,245	2,618,045	84,748	364,544	(5,137,908)	0	(5,137,908)	(4,564,543)
Interest on Long-Term Debt	1,174,762	0	0	0	(1,174,762)	0	(1,174,762)	(1,122,075)
Total Governmental Activities	84,033,702	7,109,728	10,092,583	12,818,937	(54,012,454)	0	(54,012,454)	(54,024,434)
Business Type Activities								
Transit	8,806,447	1,252,262	2,625,919	37,065	0	(4,891,201)	(4,891,201)	(5,758,732)
Airport (1)	1,406,774	931,291	252,494	0	0	(222,989)	(222,989)	0
Refuse	4,808,311	5,439,830	0	0	0	631,519	631,519	759,781
Wastewater	14,255,246	19,153,496	(35,487)	880,488	0	5,743,251	5,743,251	6,888,846
Water	6,367,483	8,126,239	(199,509)	750,230	0	2,309,477	2,309,477	3,300,260
Irrigation	2,070,543	2,985,941	0	0	0	915,398	915,398	1,010,176
Stormwater	1,322,448	2,142,452	59,318	93,617	0	972,939	972,939	1,053,233
Total Business Type Activities	39,037,252	40,031,511	2,702,735	1,761,400	0	5,458,394	5,458,394	7,253,564
Total	$123,070,954	$47,141,239	$12,795,318	$14,580,337	(54,012,454)	5,458,394	(48,554,060)	(46,770,870)
General Revenues								
Taxes								
Property Taxes					15,988,834	0	15,988,834	15,565,053
Sales and Use Taxes					21,305,977	5,081,303	26,387,280	24,361,773
Franchise and Utility Taxes					10,084,347	0	10,084,347	9,797,968
Excise Taxes					2,205,032	0	2,205,032	2,655,838
Unrestricted Investment Earnings					100,906	6,188	107,094	320,423
Miscellaneous					40,285	0	40,285	41,541
Gain/Loss on Sale of Capital Assets					403,142	(97,515)	305,627	79,833
Transfers					6,372,224	(6,372,224)	0	(19,569)
Debt Issue Cost/Premium					488,445	0	488,445	0
Total General Revenues, Transfers, Special Item, and Extraordinary Item					56,989,192	(1,382,248)	55,606,944	52,802,860
Change in Net Position					2,976,738	4,076,146	7,052,884	6,031,960
Net Position - Beginning (as restated)					165,241,691	144,682,131	309,923,822	303,891,861
Net Position - Ending					$168,218,429	$148,758,277	$316,976,706	$309,923,821

(1) Airport operations reflect 10 months of activity from March through December 31, 2013

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2013
With comparative totals for December 31, 2012

	#000 General Fund	#124 Community Development	#392 Cumulative Reserve	Other Governmental Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
Assets						
Cash & Equity in Pooled Investments	$1,474,870	$488,945	$311,394	$7,989,786	$10,264,995	$11,409,989
Deposits w/ Fiscal Agent/Trustee	67,189	0	0	0	67,189	79,972
Receivables						
Taxes	4,759,411	0	0	587,815	5,347,226	4,642,369
Accounts	1,557,563	0	0	151,779	1,709,342	1,615,528
Special Assessments	0	0	0	29,405	29,405	67,586
LID Assessments - Delinquent	0	0	0	32,311	32,311	52,314
LID Assessments - Deferred	0	0	0	390,392	390,392	503,206
Notes/Contracts	0	4,673,455	0	0	4,673,455	4,855,632
Interest/Penalties	140,581	0	0	0	140,581	93,773
Other Receivables	0	0	0	0	0	1,044,944
Due from Other Funds	0	0	0	0	0	1,199
Due from Other Government Units	23,966	84,019	1,479,149	85,937	1,673,071	1,315,791
Inventories	34,505	0	0	0	34,505	122,102
Investments, at Amortized Cost	8,758,777	0	1,505,620	7,324,736	17,589,133	13,440,689
Total Assets	$16,816,862	$5,246,419	$3,296,163	$16,592,161	$41,951,605	$39,245,094
Liabilities, Deferred Inflows of Resources & Fund Balances						
Liabilities						
Warrants/Accounts Payable	$1,214,221	$476	$457,744	$364,823	$2,037,264	$2,508,148
Wages/Benefits Payable	4,140,927	50,106	0	887,598	5,078,631	4,741,880
Contracts Payable	0	0	0	153,492	153,492	70,239
Due to Other Funds	0	0	0	0	0	1,199
Due to Other Government Units	68,483	0	0	23,478	91,961	91,973
Mature Interest Payable	0	0	0	0	0	45,203
Mature Bonds Payable	0	0	0	0	0	101,614
Deposits Payable	173,212	0	0	407,055	580,267	469,854
Custodial Accounts	67,189	0	0	551,797	618,986	932,477
Total Liabilities	5,664,032	50,582	457,744	2,388,243	8,560,601	8,962,587
Deferred Inflows of Resources						
Deferred Inflows	1,426,441	4,673,455	0	433,531	6,533,427	6,957,887
Total Liabilities & Deferred Inflows	7,090,473	4,724,037	457,744	2,821,774	15,094,028	15,920,474

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2013
With comparative totals for December 31, 2012

	#000 General Fund	#124 Community Development	#392 Cumulative Reserve	Other Governmental Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
Fund Balances (See Note 9)						
Nonspendable	34,505	0	0	622,896	657,401	734,826
Restricted	0	522,382	2,838,419	6,713,604	10,074,405	8,794,277
Committed	0	0	0	4,028,273	4,028,273	3,082,179
Assigned	0	0	0	2,405,614	2,405,614	975,260
Unassigned	9,691,884	0	0	0	9,691,884	9,738,078
Total Fund Balances	9,726,389	522,382	2,838,419	13,770,387	$26,857,577	$23,324,620
Total Liabilities and Fund Balances	$15,390,421	$572,964	$3,296,163	$16,158,630		

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

	2013	2012
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	$174,986,404	$164,199,917
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,533,427	6,957,887
Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in government activities in the statement of net position.	16,590,866	17,496,374
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(56,138,372)	(46,019,016)
Interfund loans beween Internal Service and Governmental Funds are not reported in the Governmental Fund.	(499,336)	(600,000)
Accrued interest payable on General Obligation Debt	(112,139)	(118,091)
Net position of governmental activities	$168,218,427	$165,241,691

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

	#000 General Fund	#124 Community Development	#392 Cumulative Reserve	Other Governmental Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
Revenues						
Taxes and Special Assessments	$43,770,415	$0	$0	$12,068,800	$55,839,215	$53,684,725
Licenses and Permits	817,750	0	0	0	817,750	892,282
Intergovernmental Revenues	2,683,040	1,442,851	9,049,121	8,190,815	21,365,827	13,022,779
Charges for Services	4,965,671	710,448	0	2,095,811	7,771,930	6,299,568
Fines and Forfeits	1,603,138	0	0	0	1,603,138	1,542,477
Interest	100,906	32,310	0	53,019	186,235	508,364
Other Revenues	40,285	0	0	2,359,603	2,399,888	3,550,461
Total Revenues	53,981,205	2,185,609	9,049,121	24,768,048	89,983,983	79,500,656
Expenditures						
Current						
General Government	12,100,404	0	0	184,278	12,284,682	11,558,403
Security of Persons and Property	36,329,610	0	0	6,382,483	42,712,093	40,725,019
Physical Environment	953,034	0	0	236,530	1,189,564	1,164,236
Transportation	0	0	530,553	5,193,494	5,724,047	5,406,096
Economic Environment	1,077,916	1,856,348	0	1,303,163	4,237,427	3,890,046
Mental & Physical Health	17,774	0	0	0	17,774	23,859
Cultural & Recreational Env	0	0	0	6,658,692	6,658,692	6,390,346
Capital Outlay						
General Government	35,326	0	215,479	44,896	295,701	559,791
Security of Persons and Property	343,448	0	0	4,174,863	4,518,311	590,993
Transportation	0	0	8,182,527	6,193,497	14,376,024	4,743,717
Cultural & Recreational Env	0	0	0	831,086	831,086	848,268
Debt Service						
Principal Retirement	40,482	0	0	3,281,615	3,322,097	3,010,417
Interest	80,815	0	0	1,099,899	1,180,714	1,130,759
Total Expenditures	50,978,809	1,856,348	8,928,559	35,584,496	97,348,212	80,041,950
Excess (Deficiency) of Revenues Over (Under) Expenditures	$3,002,396	$329,261	$120,562	($10,816,448)	($7,364,229)	($541,294)

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

	#000 General Fund	#124 Community Development	#392 Cumulative Reserve	Other Governmental Funds	Total Governmental Funds 2013	2012
Other Financing Sources (Uses)						
Proceeds from Capital Lease Financing	$0	$0	$0	$4,943,207	$4,943,207	$0
Proceeds f/LT Debt - GO Bonds	0	0	0	5,000,000	5,000,000	0
Proceeds f/Intergovernmental Loans	0	0	0	0	0	450,101
Interfund Loan	0	0	0	0	0	600,000
Premiums on Bonds Sold	0	0	0	488,445	488,445	0
Transfers In	0	0	50,000	5,794,421	5,844,421	6,220,589
Transfers (Out)	(3,019,305)	0	0	(2,707,917)	(5,727,222)	(6,115,082)
Intergovernmental Agreements	(39,095)	0	0	(53,600)	(92,695)	(97,520)
Sale of Capital Assets	9,765	0	0	385,294	395,059	6,122
Comp. for Loss of Gen. Capital Assets	46	0	0	52,990	53,036	93,924
Total Other Financing Sources (Uses)	(3,048,589)	0	50,000	13,902,840	10,904,251	1,158,134
Net Change in Fund Balances	(46,193)	329,261	170,562	3,086,392	3,540,022	616,840
Fund Balances - January 1	9,779,648	193,121	2,667,857	10,683,994	23,324,620	22,721,882
Change in Reserve for Inventory	(7,065)	0		0	(7,065)	(14,102)
Fund Balances - December 31	$9,726,390	$522,382	$2,838,419	$13,770,386	$26,857,577	$23,324,620

The Notes to the Financial Statements, found in the Basic Financial Section, 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, 2013
With comparative totals for December 31, 2012

	2013	2012
Net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance:	$3,540,022	$616,840
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	10,070,027	(2,360,604)
In the statement of activities, only the gain on the sale of fund assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the fund assets. This also includes donations of capital assets and infrastructure obtained by annexation.	716,462	1,123,432
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(424,460)	(196,095)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayments of the bond principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	(6,621,109)	1,960,314
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 (compensated absences, OPEB, inventory).	(3,398,698)	(2,275,179)
Internal service funds are used by management to charge the costs of services to individual funds. The net revenue (expenses) of certain internal service funds is reported with governmental activities.	(905,508)	1,320,971
Change in net position, as reflected on the Statement of Activities	$2,976,736	$189,679

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES – BUDGET & ACTUAL – GENERAL FUND

For the Year Ended December 31, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes and Special Assessments	$42,064,500	$42,689,500	$43,770,415	$1,080,915
Licenses and Permits	731,700	731,700	817,750	86,050
Intergovernmental Revenues	2,560,105	2,670,719	2,683,040	12,321
Charges for Services	5,195,480	5,195,480	4,965,671	(229,809)
Fines and Forfeits	1,555,000	1,555,000	1,603,138	48,138
Interest	250,000	250,000	100,906	(149,094)
Other Revenues	40,850	40,850	40,285	(565)
Total Revenues	52,397,635	53,133,249	53,981,205	847,956
Expenditures				
Current				
General Government	12,534,795	12,595,794	12,100,404	495,390
Security of Persons and Property	36,299,597	36,513,333	36,329,610	183,723
Physical Environment	933,496	984,511	953,034	31,477
Transportation	30,000	0	0	0
Economic Environment	883,719	1,047,332	1,077,916	(30,584)
Mental & Physical Health	18,000	18,000	17,774	226
Capital Outlay				
General Government	15,000	95,000	35,326	59,674
Security of Persons and Property	0	401,520	343,448	58,072
Debt Service				
Principal Retirement	74,419	74,419	40,482	33,937
Interest	12,690	12,690	80,815	(68,125)
Total Expenditures	50,801,716	51,742,599	50,978,809	763,790
Excess (Deficiency) of Revenues Over (Under) Expenditures	$1,595,919	$1,390,650	$3,002,396	$1,611,746
Other Financing Sources (Uses)				
Transfers In	$40,000	$40,000	$0	($40,000)
Transfers (Out)	(2,502,275)	(3,002,275)	(3,019,305)	(17,030)
Intergovernmental Agreements	(39,095)	(39,095)	(39,095)	0
Sale of Capital Assets	0	0	9,765	9,765
Comp. for Loss of Gen. Capital Assets	0	0	46	46
Total Other Financing Sources (Uses)	(2,501,370)	(3,001,370)	(3,048,589)	(47,219)
Net Change in Fund Balances	(905,451)	(1,610,720)	(46,193)	1,564,527
Fund Balances - January 1	8,483,190	8,483,190	9,779,648	1,296,458
Change in Reserve for Inventory	0	0	(7,065)	(7,065)
Fund Balances - December 31	$7,577,739	$6,872,470	$9,726,390	$2,853,920

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES – BUDGET & ACTUAL – COMMUNITY DEVELOPMENT FUND

For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Intergovernmental Revenues	$1,217,110	$2,344,441	$1,442,851	($901,590)
Charges for Services	165,000	165,000	710,448	545,448
Interest	28,300	28,300	32,310	4,010
Other Revenues	1,000	1,000	0	(1,000)
Total Revenues	1,411,410	2,538,741	2,185,609	(353,132)
Expenditures				
Current				
Economic Environment	1,437,393	2,564,724	1,856,348	708,376
Excess (Deficiency) of Revenues Over (Under) Expenditures	($25,983)	($25,983)	$329,261	$355,244
Net Change in Fund Balances	(25,983)	(25,983)	$329,261	$355,244
Fund Balances - January 1	643,198	643,198	193,121	(450,077)
Fund Balances - December 31	$617,215	$617,215	$522,382	($94,833)

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2013
With comparative totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	#462 & #364 Transit	#973 Wastewater	#974 Water
Assets			
Current Assets			
Cash & Equity in Pooled Investments	$589,319	$1,169,084	$1,463,589
Deposits w/ Fiscal Agent/Trustee	0	0	0
Receivables:			
Accounts/Taxes (Net)	892,543	904,666	144,057
Other Receivables	0	3,000	0
Interfund Loan Receivable	0	0	0
Due from Other Government Units	155,270	0	0
Inventories	0	0	225,618
Investments, at Amortized Cost	2,849,414	5,628,793	7,065,888
Total Current Assets	4,486,546	7,705,543	8,899,152
Noncurrent Assets			
Restricted Assets			
Cash	0	619,479	298,966
Investments	0	740,267	66,564
Land	1,307,989	583,270	173,614
Buildings	7,363,248	66,500,454	8,548,449
Other Improvements	1,309,934	48,835,279	47,066,866
Machinery & Equipment	8,601,590	20,216,027	2,863,597
Accumulated Depreciation	(9,719,064)	(70,601,831)	(26,284,069)
Construction in Progress	0	20,989,626	6,986,329
Intangibles	0	0	221,830
Unamortized Debt Issue Costs	0	129,105	9,458
Total Noncurrent Assets	8,863,697	88,011,676	39,951,604
Total Assets	$13,350,243	$95,717,219	$48,850,756

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2013
With comparative totals for December 31, 2012

#975 Irrigation	Other Enterprise Funds	Total 2013	Total 2012	Business-Type Activity #421 & #422 Airport	Governmental Activities Internal Service Funds
$214,127	$582,911	$4,019,030	$3,086,081	$780,899	$2,154,291
$0	$0	0	0	$0	12,475
219,281	472,062	2,632,609	3,324,020	12,260	898,543
0	0	3,000	75,398	0	0
0	0	0	0	0	499,336
0	30,142	185,412	394,716	0	0
0	0	225,618	225,926	0	398,962
1,034,065	2,369,289	18,947,449	19,488,812	0	7,926,107
1,467,473	3,454,404	26,013,118	26,594,953	793,159	11,889,714
35,437	0	953,882	910,490	0	0
0	0	806,831	846,097	0	0
98,500	0	2,163,373	2,163,373	3,418,797	0
418,531	0	82,830,682	82,830,682	5,532,150	37,397
19,905,266	1,785,988	118,903,333	116,566,188	20,803,107	572,993
83,618	27,543	31,792,375	32,599,791	2,807,120	21,563,343
(4,208,595)	(138,234)	(110,951,793)	(105,656,215)	(22,527,127)	(13,139,664)
1,685,506	384,095	30,045,556	13,015,187	861,239	785
0	0	221,830	221,830	1,352,387	0
31,663	0	170,226	187,793	0	0
18,049,926	2,059,392	156,936,295	143,685,216	12,247,673	9,034,854
$19,517,399	$5,513,796	$182,949,413	$170,280,169	$13,040,832	$20,924,568

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2013
With comparative totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	#462 & #364 Transit	#973 Wastewater	#974 Water
Liabilities			
Current Liabilities			
Warrants/Accounts Payable	$179,243	$1,123,011	$929,368
Wages/Benefits Payable	346,993	445,256	227,839
Compensated Absences Payable	435,239	609,723	224,726
Claims and Judgments Payable	0	390,491	199,509
Accrued Payables	0	119,040	26,239
Deposits Payable	6,100	271,750	116,822
Interfund Payable	0	0	0
Current Portion Long-term Debt	0	1,068,832	470,127
Restricted Payables	0	0	0
Current Portion LT Debt	0	1,080,000	195,000
Total Current Liabilities	967,575	5,108,103	2,389,630
Noncurrent Liabilities			
Bonds Payable	0	12,860,000	835,000
Unamortized Bond Discount/Premium	0	960,219	37,222
Deferred Amount On Debt Refunding	0	(524,439)	(21,606)
Loans Payable - Long Term	0	10,901,694	8,627,246
Total Noncurrent Liabilities	0	24,197,474	9,477,862
Total Liabilities	967,575	29,305,577	11,867,492
Net Position			
Invested in Capital Assets, Net of Related Debt (as restated)	8,863,697	60,441,584	29,416,846
Restricted for Debt Service	0	1,359,746	365,530
Unrestricted	3,518,971	4,610,312	7,200,888
Total Net Position	$12,382,668	$66,411,642	$36,983,264

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2013
With comparative totals for December 31, 2012

#975 Irrigation	Other Enterprise Funds	Total 2013	Total 2012	Business-Type Activity #421 & #422 Airport	Governmental Activities Internal Service Funds
$4,774	$107,621	$2,344,017	$1,687,414	$26,871	$300,294
58,658	186,483	1,265,229	1,286,527	52,515	221,641
68,382	181,056	1,519,126	1,647,717	47,728	280,051
0	0	590,000	0	0	3,531,716
64,363	0	209,642	192,220	4,428	0
0	125,221	519,893	493,386	34,212	0
0	0	0	435,819	0	0
0	0	1,538,959	1,012,670	0	0
0	0	0	0	0	0
130,000	0	1,405,000	1,335,000	0	0
326,177	600,381	9,391,866	8,090,753	165,754	4,333,702
4,090,000	0	17,785,000	19,190,000	0	0
(90,983)	0	906,458	1,009,175	0	0
0	0	(546,045)	(602,810)	0	0
0	0	19,528,940	11,007,909	0	0
3,999,017	0	37,674,353	30,604,274	0	0
4,325,194	600,381	47,066,219	38,695,027	165,754	4,333,702
13,821,109	2,059,392	114,602,628	109,844,465	12,243,245	9,034,854
35,437	0	1,760,713	1,756,587	0	0
1,335,659	2,854,023	19,519,853	19,984,090	631,833	7,556,012
$15,192,205	$4,913,415	$135,883,194	$131,585,142	$12,875,078	$16,590,866

The Notes to the Financial Statements, found in the Basic Financial Section, 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, 2013
With comparative totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	#462 & #364 Transit	#973 Wastewater	#974 Water
Operating Revenues			
Charges for Services	$1,252,262	$19,145,010	$8,000,664
Charges for Insurance	0	0	0
Employer Contributions	0	0	0
Employee Contributions	0	0	0
Other Operating Revenues	0	8,486	125,575
Total Operating Revenues	1,252,262	19,153,496	8,126,239
Operating Expenses			
Operations and Maintenance	6,871,025	6,693,255	2,125,648
Administration/Overhead	900,558	2,783,154	2,397,734
Taxes	0	4,420,374	2,153,204
Depreciation/Amortization	1,034,864	3,465,893	1,247,271
Other Benefits	0	0	0
Total Operating Expenses	8,806,447	17,362,676	7,923,857
Operating Income (Loss)	(7,554,185)	1,790,820	202,382
Non-Operating Revenues (Expenses)			
Operating Grants and Subsidies	7,707,222	0	0
Interest Revenue	984	2,118	507
Other Non-Operating Revenues	37,065	(35,487)	(199,509)
Interest Expenses	0	(592,614)	(81,101)
Amortization of Bond Payment Discount	0	34,818	1,232
Gain (Loss) on Capital Assets Disposition	(97,515)	0	0
Non-Operating Revenue Net of Expenses	7,647,756	(591,165)	(278,871)
Income (Loss) Before Contributions and Transfers	93,571	1,199,655	(76,489)
Capital Contributions	0	880,488	750,230
Transfers In	0	232,939	1,165,000
Transfers (Out)	(10,000)	(1,190,641)	(114,497)
Change in Net Position	83,571	1,122,441	1,724,244
Total Net Position - January 1	12,299,100	65,289,201	35,259,020
Total Net Position - December 31	$12,382,671	$66,411,642	$36,983,264

The Notes to the Financial Statements, found in the Basic Financial Section, 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, 2013
With comparative totals for December 31, 2012

#975 Irrigation	Other Enterprise Funds	Total 2013	Total 2012	Business-Type Activity For the 10 Months Ended Dec 2013 #421 & #422 Airport	Governmental Activities For the Year Ended Dec 2013 Internal Service Funds
$2,981,698	$7,578,859	$38,958,493	$38,711,675	$284,868	$6,452,465
0	0	0	0	0	3,279,044
0	0	0	0	0	10,180,604
0	0	0	0	0	1,953,136
4,243	3,423	141,727	151,884	646,423	2,876
2,985,941	7,582,282	39,100,220	38,863,559	931,291	21,868,125
1,232,665	6,050,106	22,972,699	22,642,754	479,725	7,832,205
209,856	779,289	7,070,591	6,426,130	273,307	3,059,525
50,290	212,467	6,836,335	6,738,766	0	0
372,662	42,453	6,163,143	5,773,920	652,204	1,474,278
0	0	0	0	0	9,671,509
1,865,473	7,084,315	43,042,768	41,581,570	1,405,236	22,037,517
1,120,468	497,967	(3,942,548)	(2,718,011)	(473,945)	(169,392)
0	59,318	7,766,540	7,072,998	252,494	0
1,500	0	5,109	11,348	1,079	343,464
0	0	(197,931)	464,673	0	213,608
(197,405)	0	(871,120)	(937,070)	(1,538)	0
(7,665)	0	28,385	11,152	0	0
0	0	(97,515)	6,566	0	(57,234)
(203,570)	59,318	6,633,468	6,629,667	252,035	499,838
916,898	557,285	2,690,920	3,911,656	(221,910)	330,446
0	93,617	1,724,335	2,055,699	0	0
0	0	1,397,939	232,939	0	0
0	(200,000)	(1,515,138)	(358,015)	0	(1,235,954)
916,898	450,902	4,298,056	5,842,279	(221,910)	(905,508)
14,275,307	4,462,513	131,585,141	125,742,862	13,096,989	17,496,374
$15,192,205	$4,913,415	$135,883,197	$131,585,141	$12,875,079	$16,590,866

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	#462 & #364 Transit	#973 Wastewater	#974 Water
Cash Flows from Operating Activities			
Cash Received from Customers	$1,252,262	$19,498,277	$8,290,986
Contributions Received - Employer and Employee	0	0	0
Cash Paid to Suppliers for Goods and Services	(3,818,583)	(4,581,305)	(2,313,514)
Cash Paid for Salaries and Benefits	(3,898,027)	(5,386,894)	(2,522,674)
Other Operating Revenues Collected	0	8,486	125,575
Cash Paid to Claimants and Beneficiaries	0	0	0
Cash Paid in Lieu of Taxes	0	(3,665,226)	(1,636,243)
Net Cash Provided by Operating Activities	(6,464,348)	5,873,338	1,944,130
Cash Flows from Noncapital Financing Activities			
Sales Tax Received	5,081,303	0	0
Operating Grants Received	2,763,339	0	0
Cash Advances to Other Funds	0	0	0
Transfers Out to Other Funds	(10,000)	0	0
Net Cash Provided by Noncapital Financing Activities	7,834,642	0	0
Cash Flows from Capital Financing Activities			
Proceeds from Public Works Trust/SIED Loan/Revenue Bonds	0	4,838,975	5,377,591
Cash Received for Debt Service from Other Governments	0	355,004	0
Cash Received from Disposal of Capital Assets	46,880	0	0
Cash Contributions in Aid of Construction	17,432	864,989	492,325
Principal Paid on Revenue Bonds	0	(1,030,000)	(180,000)
Principal Paid on Public Works Trust/SIED Loan	0	(866,299)	(302,947)
Capital Expenditures Paid	(6,373)	(12,014,191)	(6,254,561)
Interest and Other Debt Service Paid	0	(581,966)	(72,861)
Capital Grants Received	0	0	0
Other Non-Operating Capital Revenue	5,052	(390,491)	(199,509)
Transfer In	0	232,939	1,165,000
Transfer Out	0	(1,190,641)	(114,497)
Net Cash Used for Capital Financing Activities	62,991	(9,781,681)	(89,459)

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

#975 Irrigation	Other Enterprise Funds	Total 2013	Total 2012	Business-Type Activity For the 10 Months Ended Dec 2013 #421 & #422 Airport	Governmental Activities For the Year Ended Dec 2013 Internal Service Funds
$2,983,192	$7,675,071	$39,699,788	$37,750,133	$352,981	$6,585,977
0	0	0	0	0	15,625,227
(784,158)	(4,086,745)	(15,584,305)	(16,046,371)	(251,902)	(8,592,047)
(709,885)	(2,033,670)	(14,551,150)	(13,571,606)	(433,391)	(2,374,681)
4,243	3,423	141,727	151,884	646,422	2,876
0	0	0	0	0	(9,352,384)
0	(953,556)	(6,255,025)	(6,066,558)	0	0
1,493,392	604,523	3,451,035	2,217,482	314,110	1,894,968
0	59,318	5,140,621	4,781,170	0	0
0	0	2,763,339	4,052,754	0	209,343
0	0	0	0	0	536,483
0	0	(10,000)	(10,000)	0	0
0	59,318	7,893,960	8,823,924	0	745,826
0	0	10,216,566	4,151,704	0	0
0	0	355,004	391,403	0	0
0	0	46,880	6,566	0	67,774
0	0	1,374,746	1,661,824	0	0
(125,000)	0	(1,335,000)	(1,949,777)	0	0
(435,819)	0	(1,605,065)	(1,627,983)	(250,000)	0
(39,507)	(185,559)	(18,500,191)	(10,292,320)	(299,599)	(2,051,758)
(198,871)	0	(853,698)	(976,072)	(9,365)	0
0	38,513	38,513	95,058	0	0
0	0	(584,948)	41,938	291,086	0
0	0	1,397,939	232,939	0	0
0	(200,000)	(1,505,138)	(348,015)	0	0
(799,197)	(347,046)	(10,954,392)	(8,612,735)	(267,878)	(1,983,984)

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	#462 & #364 Transit	#973 Wastewater	#974 Water
Cash Flows from Investing Activities			
Proceeds from Sale of Investment Securities	1,743,570	10,088,336	5,877,145
Interest Received on Investments	984	2,118	507
Purchase of Investment Securities	(2,849,414)	(6,369,060)	(7,132,452)
Net Cash Provided by Investing Activities	(1,104,860)	3,721,394	(1,254,800)
Net Increase (Decrease) in Cash and Cash Equivalents	328,425	(186,949)	599,871
Cash and Cash Equivalents at Beginning of Year	260,894	1,975,515	1,162,684
Cash and Cash Equivalents at End of Year	$589,319	$1,788,566	$1,762,555
Cash at the End of the Year			
Operating Fund Cash	$589,319	$1,169,084	$1,463,589
Revenue Bond Reserve Account Cash	0	513,400	282,610
Revenue Bond Redemption Account Cash	0	106,079	16,356
Total Cash at the End of the Year	$589,319	$1,788,563	$1,762,555
Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Net Operating Income (Loss)	($7,554,184)	$1,790,820	$202,382
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	1,034,864	3,465,893	1,247,271
Change in Assets and Liabilities			
(Increase) Decrease in Accounts Receivable	0	295,265	256,293
(Increase) Decrease in Deposits w/ Fiscal Agent/Trustee	0	0	0
Increase (Decrease) in Allowance for Uncollectibles	0	58,002	34,029
(Increase) Decrease in Inventory	0	0	308
Increase (Decrease) in Warrants/Accounts Payable	46,291	375,367	209,104
Increase (Decrease) in Wages/Benefits Payable	1,425	(27,597)	2,492
Increase (Decrease) in Compensated Absences Payable	7,256	(84,412)	(7,749)
Increase (Decrease) in Claims and Judgments Payable	0	0	0
Total Adjustments	1,089,836	4,082,518	1,741,748
Net Cash Provided by Operating Activities	($6,464,348)	$5,873,338	$1,944,130
Schedule of Noncash Capital and Related Financing Activities			
Capital Assets Acquired by Noncash Contributions	$0	$70,630	$178,345

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

#975 Irrigation	Other Enterprise Funds	Total 2013	Total 2012	Business-Type Activity For the 10 Months Ended Dec 2013 #421 & #422 Airport	Governmental Activities For the Year Ended Dec 2013 Internal Service Funds
524,894	2,100,964	20,334,909	16,188,000	0	7,156,377
1,500	0	5,109	11,348	1,079	344,416
(1,034,065)	(2,369,289)	(19,754,280)	(20,334,909)	0	(7,926,107)
(507,671)	(268,325)	585,738	(4,135,561)	1,079	(425,314)
186,524	48,470	976,341	(1,706,890)	47,311	231,496
63,040	534,438	3,996,571	5,703,461	733,588	1,922,794
$249,564	$582,908	$4,972,912	$3,996,571	$780,899	$2,154,290
$214,127	$582,911	$4,019,030	$3,086,081	$780,899	$2,154,290
0	0	796,010	754,644	0	0
35,437	0	157,872	155,846	0	0
$249,564	$582,911	$4,972,912	$3,996,571	$780,899	$2,154,290
$1,120,468	$497,967	($3,942,547)	($2,718,010)	($473,945)	($169,392)
372,662	42,453	6,163,143	5,773,920	652,204	1,474,278
(7,287)	65,601	609,872	(1,135,404)	68,113	345,955
0	0	0	0	0	(1)
8,781	22,960	123,772	163,008	0	0
0	0	308	(21,414)	0	77,292
3,184	12,431	646,377	35,120	16,690	(219,828)
(2,114)	4,496	(21,298)	40,786	52,515	9,189
(2,302)	(41,385)	(128,592)	79,477	(1,467)	23,350
0	0	0	0	0	354,125
372,924	106,556	7,393,582	4,935,493	788,055	2,064,360
$1,493,392	$604,523	$3,451,035	$2,217,483	$314,110	$1,894,968
$0	$48,480	$297,455	$325,625	$0	$0

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

December 31, 2013
With comparative totals for December 31, 2012

	Firemen's Relief and Pension	Agency Fund	Total 2013	Total 2012
Assets				
Cash & Equity in Pooled Investments	$166,077	$333,270	$499,347	$537,418
Receivables - Accounts	0	0	0	$15,679
Investments, at Amortized Cost	776,866	0	776,866	764,671
Equipment	0	1,180,349	1,180,349	0
	942,943	1,513,619	2,456,562	1,317,768
Liabilities				
Warrants/Accounts Payable	1,834	7,058	$8,892	33,427
Due to Other Governmental Units	0	1,506,561	1,506,561	392,201
	1,834	1,513,619	1,515,453	425,628
Net Position				
Held in Trust for Pension Benefits and Other Purposes	$941,109	$0	$941,109	$892,140

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended December 31, 2013
With comparative totals for December 31, 2012

	— Firemen's Relief and Pension —	
	2013	**2012**
Additions		
Employer Contributions	$1,269,539	$1,381,576
Interest Revenue	9,000	10,000
Total Additions	1,278,539	1,391,576
Deductions		
Administration/Overhead	40,919	42,225
Pension Benefits	632,879	711,585
Other Benefits	555,771	538,807
Total Deductions	1,229,569	1,292,617
Change in Net Position	48,970	98,959
Total Net Position, January 1	892,140	793,181
Total Net Position, December 31	$941,110	$892,140

The Notes to the Financial Statements, found in the Basic Financial Section, are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Yakima, Washington, conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The City has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard setting body for establishing governmental accounting and financial reporting principles nationally. The following is a summary of the more significant policies. The policies should be reviewed as an integral part of the financial statements and are presented to assist the reader in interpreting the financial statements and other data in this report.

REPORTING ENTITY

The City of Yakima was incorporated in 1886 and operates under a Council/Manager form of government with a full-time City Manager. The City of Yakima provides a full range of municipal services, which include: police, fire, engineering, parks, cemetery, street, and administrative services. Included in the City's Enterprise Fund financial reports are: water, irrigation, sanitary wastewater, solid waste, stormwater, transit and the Yakima Air Terminal, which was operated under a joint venture agreement with Yakima County in prior years, but became a City department in early 2013.

The City's financial statements include all funds, agencies and boards which are financially accountable to the City. Financial accountability is manifest when the primary government appoints the majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify the budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government. Applying these criteria, the primary government consists solely of the legal entity of the City.

Related Organization – The City's officials are also responsible for appointing the members of the boards of another organization, but the City's accountability for this organization does not extend beyond making the appointments.

Yakima Housing Authority – The Yakima Housing Authority was created by Resolution No. D-1575, in 1971, and, under certain conditions, can be dissolved by the City. Yet, it is an independent entity with distinct governmental character and organization. The City of Yakima created the Housing Authority per Washington State Revised Code Chapter 35.82 which provides that liabilities incurred by the Housing Authority will be satisfied from its assets, and that no person shall have any right of action against the City on account of its debts, obligations, and liabilities, except for a Contingent Loan Agreement dated October 1, 1998, for a single bond issue of $2.6 million. It should be noted that the City was released from this contingency in May, 2014.

Yakima Regional Public Facilities District – Although a separate legal entity, the City has elected to account for the operations of the Public Facilities District, as a blended component unit, in two Nonmajor Special Revenue Funds. The cities of Yakima, Selah and Union Gap originally formed a Public Facilities District (PFD) for the purpose of expanding the Yakima Convention Center and in 2008 added expansion of the Capitol Theatre. The City appoints a majority of the board members and must approve the annual budget.

The financial agreement stipulates that all revenue derived by the PFD (primarily two separate state sales tax credits) be transferred to the City and the City will use these funds for the applicable project debt service and operations, and reimbursement of administrative costs of the PFD.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City's policy is to allocate indirect costs to individual functions, if they are non-tax supported.

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; 2) fines and forfeitures; and 3) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING & FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under this measurement focus, 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.

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

Certain charges for service, sales based taxes, and interest associated within the current period are 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. Grants are considered measurable and available to the extent that expenditures have been made. Other intergovernmental revenues are considered measurable and available when earned. Other revenues such as state shared revenue, licenses, fines and fees are not considered susceptible to accrual since they are not generally measurable until received. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Yakima reports the following major governmental funds:

- The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The ***Community Development Fund*** accounts for the Office of Neighborhood Development, which is the focus of the City's effort to improve economic opportunities and housing conditions in Yakima. Federal Housing and Urban Development grants are the major revenue source for this program.
- The ***Cumulative Reserve for Capital Improvement Fund*** is used to account for general government capital projects that are not eligible to be included in other capital funds. A project to construct a railroad underpass, funded by grants and low-interest loans, made this fund eligible to be a major fund in 2013.

The City reports the following enterprise funds as major funds:

- The ***Transit Fund*** accounts for the operation of the City Transit System, funded primarily by 0.3% sales tax, federal grants and fares.
- The ***Water and Wastewater Funds*** account for the provision of water and wastewater services to the residents of the City and other outside utility agreements.
- The ***Irrigation Utility Fund*** is responsible for the operation, maintenance and reconstruction of the existing irrigation system.
- The ***Yakima Air Terminal*** was merged into the City at the end of February, 2013 and is included in the fund financial statements in order to present the 10 months of activity. It does not meet the GASB criteria of being a major fund.

Additionally, the government reports the following fund types:

- ***Internal Service Funds*** account for fleet management services, liability insurance, employee benefit reserves, and public works administration services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.
- ***Fiduciary Funds*** are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting, with the exception of agency funds which technically have no measurement focus, but do employ the accrual basis of accounting for purposes of asset and liability recognition.
    - ***Pension Trust Funds*** are used to account for the operations of trust established for employee retirement benefits. They are accounted for in essentially the same manner as proprietary funds because of the need for determining the periodic income of the trust.
    - ***Agency Funds*** account for assets held by the City as an agent for joint, intergovernmental operations through interlocal agreements. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City is the fiduciary agent for the fiscal activity of Yakima Consortium for Regional Public Safety (YAKCORPS).

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the water, wastewater, refuse, stormwater and irrigation enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

New Accounting Standard

In March 2012, the GASB issued Statement of Governmental Accounting Standard No. 65 "*Items Previously Reported as Assets and Liabilities.*" This statement further defines deferred inflows of resources and deferred outflow of resources as introduced by GASB Statement No. 63 implemented by the City in 2012. The objective is to classify certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflow of resources (revenues).

ASSETS, LIABILITIES, FUND BALANCE AND NET POSITION

Cash and Cash Equivalents

Cash is considered to be cash on hand, demand deposits, and highly liquid investments with maturities of three months or less from the date of acquisition. Included in this category are all funds held in the Washington State Treasurer's Local Government Investment Pool (LGIP).

The LGIP is comparable to an SEC regulated Rule 2a-7 money market fund in which funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Investments (Refer to Deposits and Investments Note 4.)

Receivables

Taxes receivable consists of property and other taxes including related interest and penalties (See Note 4). Accrued interest receivable consists of amounts earned on investments, notes, and contracts as of year-end.

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. Customer accounts receivable consists of amounts due from private individuals or organizations for goods and services. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered. The major component of the notes receivable category is in the Community Development fund and represents a revolving home ownership assistance program.

Amounts Due To and From Other Funds; Interfund Loans and Advances Receivable

These accounts include all interfund receivables and payables. A separate schedule of interfund loans receivable and payable is furnished in Note 4 – Interfund Receivables. Long-term interfund loans are separately identified as "Advances" – at December 31, 2013, there were no interfund advances.

Amounts Due To and From Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services, except amounts billed for utility usage which is included in customer receivables.

Inventories
Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are included in the "Nonspendable" category of fund balance, since it is a non-cash asset not available for future expenditure.

Inventories in the General Fund, Enterprise Funds and Internal Service Funds are valued at cost on a moving average method.

Restricted Assets and Liabilities
These accounts contain resources for debt service reserve/redemption in the enterprise funds. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note 7.

Capital Assets (See Note 4 – Capital Assets)
Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets are long lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, drainage systems, water and wastewater systems, and lighting systems.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

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

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.

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

Buildings	25 - 40 Years
Improvements Other than Buildings	7 - 50 Years
Utility Plant	33 - 50 Years
Equipment	2 - 25 Years
Intangibles (Organization Costs and Goodwill)	75 - 100 Years
Infrastructure	15 - 50 Years

Custodial Accounts
These accounts reflect the liability for net monetary assets being held by the City in its trustee or agency capacity.

Deferred Outflow of Resources
Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involved no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. It also represents access to present service capability that is under the government's controls.

Accrued Liabilities
Other accrued liabilities include primarily claims and judgments payable in the Internal Service Funds, current interest payable on long-term debt and small miscellaneous payables not classified in other categories in Enterprise Funds.

Noncurrent Liabilities
Noncurrent liabilities include long-term debt, compensated absences and the cumulative unfinanced liability related to post employment benefits. For additional information on long-term debt see Note 7.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The bond proceeds, net of premiums, discounts and issuance costs are reported as "other financing sources".

Compensated Absences – Contracts with employees call for the accumulation of vacation and sick leave. At termination of employment, employees may receive cash payment for all accumulated vacation up to a certain number of hours and a percentage of sick leave, depending on employee group. The payment is based on current wage at termination.

The amounts of unpaid vacation and sick leave accumulated by City employees are accrued as expenses when incurred in proprietary funds, which use the accrual basis of accounting. In the governmental funds, only the amounts that normally would be liquidated with expendable available financial resources are accrued as current year expenditures. The City uses the last-in, first-out method of recognizing the hours used of compensated absences. Employees are charged for the last day of vacation or sick leave earned when the leave is used. Thus, unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. Therefore, the entire unpaid liability for the governmental funds is a reconciling item between the fund and government-wide presentations.

Deferred Inflow of Resources
Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period. A deferred inflow of resources involved no acquisition of resources resulting in either a net increase in assets or a net decrease in liabilities. It represents a present obligation to sacrifice resources that the government has little or no discretion to avoid. A detailed listing is presented in Note 4.

Fund Balance Classifications (See Note 9 – Fund Balance Classifications)
The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which require the City to classify its fund balances based on spending constraints imposed on the use of resources. The Net Position, comprised of the fund balances, is the excess of all the city's assets over all liabilities, regardless of fund.

Nonspendable – Represents balances set aside to indicate items that do not represent available, spendable resources even though they are a component of assets. Fund balances are required to be maintained intact and include permanent funds and assets not expected to be converted to cash, such as inventories, and notes receivable.

Restricted – Are funds that have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which require the resources to be used only for a specific purpose.

Committed – These funds have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council.

Assigned – Funds in this category are amounts constrained by the City to be used for a specific purpose, but are neither restricted nor committed and may be changed by City Council.

Unassigned – This represents the residual amounts that have not been restricted, committed, or assigned.

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

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes reconciliation between *fund balance – total government 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, are not reported in the funds." The details of this $56,138,372 difference are as follows:

Bonds Payable	$23,053,078
Intergovernmental Loans	3,501,035
Special Assessments - Note	428,800
Lease Purchase Agreements	5,373,764
Unfinanced Pension/OPEB Liability	16,474,396
Compensated Absences	7,307,299
Net Adjustments to reduce fund balance - Total Governmental funds to arrive at net position - governmental activities	*$56,138,372*

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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 details of this $10,070,027 difference are as follows:

Capital Outlay	$20,021,122
Depreciation Expense	(9,951,095)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	*$10,070,027*

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations and physical inventory adjustments) is to increase net position." The details of this $716,462 difference are as follows:

In the statement of activities, only gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in the fund balance by the cost of the capital assets sold.	($44,953)
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	761,415
Net adjustment to increase/(decrease) net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	*$716,462*

Another element of that reconciliation states that "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." The details of this $6,621,109 difference are as follows:

Debt Issued	
Issuance of General Obligation Bonds	($5,000,000)
Lease Purchase Agreements	(4,943,207)
Principal Repayments	
General Obligation Debt	2,448,575
Intergovernmental Loans	236,375
Contractual Agreement - Yakima County	300,690
Special Assessment Notes	146,200
Lease Purchase Agreements	89,594
Interfund Loan	100,664
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	*($6,621,109)*

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this $3,398,698 difference are as follows:

Compensated Absences	($288,530)
Change in Unfunded Pension Liability	75,073
Change in Other Post Employment Benefit Liability	(3,184,128)
Change in Reserve for Inventory	(7,065)
Accrued Interest Payable	5,952
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	*($3,398,698)*

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS AND BUDGETARY ACCOUNTING

Scope of Budget

The City Council annually approves the City's operating budget. The operating budget is designed to allocate annually available resources among the City's services and programs and to provide for associated financing decisions.

Annual appropriated budgets are adopted on the modified accrual basis of accounting. For governmental funds, there are no differences between budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for the General Fund and Special Revenue Funds only. Budgets for debt service and capital projects are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lines of debt issues or projects. Budgetary comparisons for proprietary funds, although not legally required, may be requested from the Department of Finance and Budget.

Annual appropriated budgets are adopted at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for general and special revenue funds lapse at year end.

Procedures for Adopting the Original Budget
The City's budget procedures are mandated by Washington State Law. The steps in the budget process are as follows:

- Prior to November 1, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months and balanced with revenue estimates.
- The Council conducts a public hearing on the proposed budget in November to obtain taxpayer comments.
- During December, the budget is legally enacted through passage of an ordinance.

Amending the Budget
The City Manager is authorized to transfer budgeted appropriations between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of permanently authorized employee positions, salary ranges, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by an ordinance approved by a one more than simple majority of those council members present after holding two public hearings.

The budget amounts shown in the financial statements represent the original adopted budget and all supplemental appropriations. City-wide, supplemental appropriations totaled $16.1 million. The principal amendments were to reappropriate 2012 outstanding encumbrances in the amount of $3.6 million and nonlapsing appropriations for various projects in capital funds (Arterial Street, Sewer Construction, Domestic Water Improvement, Wastewater Facilities, and Irrigation System Improvement) in the amount of $4.7 million.

Excess of Expenditures over Appropriations
For the year ended December 31, 2013, expenditures slightly exceeded appropriations in two separate funds:

- The Front Street Business Improvement Fund was over budget by $1,610. This is funded by a self-assessment on businesses in the area, and expenditures are approved by the oversight committee. They had built up the balance to provide signage in the historical area which slightly exceeded the original budget estimate.
- The Economic Development Fund exceeded budget by about $2,000 in the area of professional services. The ending balance is still within targeted levels.

Both of these overages were conveyed to City Council in the 2013 Year-end Budget Revenue and Expenditure Report.

Encumbrances
Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City reappropriates outstanding encumbrances in the subsequent year.

FUND EQUITY

Nonspendable Fund Balance in Permanent Funds
The fund balance of $622,896 in the Cemetery Trust Fund represents a portion of the amounts paid for cemetery plots. Provisions of these sales require $120 of the sales price be held in trust and that the income on the investment of these amounts be used to maintain the plots.

Fiduciary Fund Net Position
The Firemen's Relief and Pension Fund has Net Position held in Trust for Pension Benefits and other purposes of $941,109 which represents the accumulated contributions made by the government through property taxes (see Note 4) plus interest earnings and state fire insurance premium tax proceeds.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

DEPOSITS AND INVESTMENTS

Deposits
The City of Yakima maintains deposit relationships with several Washington State commercial banks and savings and loan institutions that are classified as Public Depositories (see below).

The Public Deposit Protection Commission of the State of Washington (PDPC) covers all deposits not insured by the Federal Depository Insurance Corporation (FDIC). The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool that insures public deposits. In such a pool, a group of financial institutions holding public funds pledge collateral to a common pool. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements.

The City of Yakima had the following cash on hand and deposit balances on December 31, 2013:

Banks and Savings and Loan Institutions	$14,419,894
Petty Cash and Other Imprest Funds	14,537
Local Government Investment Pool (LGIP)	4,317,677
Total	$18,752,108

Custodial Credit Risk: Deposits – The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the City's deposits with banks and savings and loan associations may not be recovered. Because of the PDPC, the City's deposits are not subject to this risk.

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (SEC). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Foreign Currency Risk: Deposits – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City of Yakima does not participate in making deposits or investments that are exposed to this type of risk.

Investments

Cash and investments are managed under the guidance of the City's Investment Policy (Resolution R2011-134). The policy is based on the Model Investment Policy prepared by the Association of Public Treasurers of the United States and Canada and applies to all financial assets of the City of Yakima (excluding the Firemen's Relief and Pension Fund).

As of December 31, 2013, the City of Yakima had the following investments:

INVESTMENT PORTFOLIO

Investment Types	Carrying Value	Fair Value	Weighted Average Maturity to Expected Call (Days)	Weighted Average Final Maturity (Days)	Rating
Federal Agency Securities	$42,294,443	$41,620,911	820	1,420	n/a
Local Government Agency Securities	3,060,670	3,065,992	751	751	A1, A
Certificates of Deposit - PDPC	262,473	262,473	209	209	n/a
Local Assessment Notes	428,800	428,800	n/a	n/a	n/a
Total Portfolio	$46,046,386	$45,378,176			

Carrying Value

Investments are reported at Net Book Value on the Financial Statements.

Investments are held until maturity unless called by the issuer prior to the maturity date. Premiums or Discounts realized at purchase are amortized over the life of the investment such that Net Book Value is equal to the amount realized at maturity.

Fair value is a volatile number that reflects the market price on a given date. Swings in fair value create arbitrary gains and losses which are never realized due to the City's policy of holding investments until maturity.

Interest Rate Risk

In accordance with its adopted investment policy, the City manages its exposure to declines in fair value due to rising interest rates by limiting the weighted average maturity of its cash and security portfolio as a whole. Additionally, the City does not use derivatives, pass through obligations or other extremely interest rate sensitive instruments in its portfolio. Weighted average maturity on callable securities is calculated using both the expected call date and the final maturity date.

Credit Risk

State law, under RCW sections 35.39 and 39.59, limits investments that a Washington class 1 City may hold to: (1) Direct and Indirect obligations of the US Government, (2) high quality Municipal Bonds of Washington State or Cities and Towns within the State, (3) high quality General Obligation bonds of another State or City, by Washington Administrative Code permission, not in the RCW's, (4) Bankers Acceptances and high quality Commercial Paper as long as they hold one of the 2 highest Credit ratings issued by at least two nationally recognized rating agencies, and the (4) State Treasurer's LGIP. The LGIP is a 2a7 like pool, and investments in the pool are reported at the share price of 100% of dollars invested. The City's own adopted Investment Policy adheres to the RCW's and also allows for investment in high quality Commercial Paper, Bankers Acceptances and the LGIP (see Deposit Note for information on the LGIP).

Custodial Credit Risk

The City's investment Policy does not include Repurchase, Reverse – Repurchase agreements or securities lending as allowable investment activity; therefore no custodial credit risk exists. All investments are held in the City's name by a third party custodian through a Trust Agreement, with the exception of the LGIP and LID Notes (see Deposit note for custodial risk details).

PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied within the county for all taxing authorities. Collections are distributed after the end of each month, on the tenth day of the following month.

PROPERTY TAX CALENDAR

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

During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections in the hands of the County Treasurer at December 31st. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectable.

The City is permitted by law to levy up to $3.60 per $1,000 of assessed valuation for general government services, less a maximum levy of $.50/$1,000 for the Library District, beginning in 2007. This amount may be reduced for either of the following reasons:

- The Washington State Constitution limits total regular property tax levies to one-percent of assessed valuation or $10 per $1,000 of value. If the tax levies of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
- Washington State law, RCW 84.55.010, limits the total dollar amount of regular property taxes that may be levied annually to 101% of the highest levy in the three previous years (excluding new construction, annexations and state assessed property).

Special levies approved by the voters are not subject to the above limitations.

For 2013, the City's regular tax levy was 3.0895 per $1,000 on a total assessed valuation of $5.5 billion, for a total regular levy of $16,975,232. Included in the City's regular levy is an authorization to levy for the Firemen's Relief and Pension Fund (see Note 5). This levy is subject to the same limitations as the levy for general government services. The Firemen's Relief and Pension portion of the regular tax levy for 2013 was $.2178 per $1,000, or $1,196,702. Additionally, special levies for General Obligation Bond obligations totaled $293,000.

RECEIVABLES

Receivables as of year-end for the City's individual major funds, nonmajor, internal service and agency funds in the aggregate, including applicable allowance for uncollectible accounts, are shown in the following chart.

ACCOUNTS RECEIVABLE

	Taxes	Accounts	Special Assessments	Due from Other Gov'ts	Interest & Penalties	Other	Total
General Fund	$4,759,411	$1,557,563	$0	$23,966	$140,581	$0	$6,481,521
Com & Econ Dev	0	4,673,455	0	84,019	0	0	4,757,474
Cumulative Reserve	0	0	0	1,479,149	0	0	1,479,149
Non-Major Gov't (1)	587,815	151,779	452,108	85,937	0	0	1,277,639
Transit	892,543	0	0	155,270	0	0	1,047,813
Refuse	0	434,254	0	0	0	0	434,254
Wastewater	0	904,666	0	0	0	3,000	907,666
Water	0	144,057	0	0	0	0	144,057
Irrigation	0	219,281	0	0	0	0	219,281
Stormwater	0	37,808		30,142	0	0	67,950
Internal Service Funds	0	898,543	0	0	0	499,336	1,397,879
Total	$6,239,769	$9,021,406	$452,108	$1,858,483	$140,581	$502,336	$18,214,683

(1) Delinquent Local Improvement District (LID) assessments of $52,314 are included in the Special Assessment balance.

Revenues of the Water, Wastewater, Refuse, Irrigation and Stormwater funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period of approximately 1% of billed revenue. Detail by utility follows:

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Refuse	$54,905
Wastewater	168,912
Water	80,627
Irrigation	30,118
Stormwater	21,663
Total	$356,225

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are shown in the following chart.

DEFERRED INFLOWS OF RESOURCES

	Unavailable
General Fund	
Court Receivables	$1,399,282
Miscellaneous	27,159
Community Economic Development - Homeownership Programs	4,673,455
Special Revenue Funds	
Parks & Recreation - Pool & Field Rentals	9,141
Streets - Sidewalk Repairs	670
Community Relations - Equipment Reimbursement	1,600
Cemetery - Lot Sales	10,660
Public Safety Communications - Site Lease	37
Parking & Business Improvement - Assessment Levied on Businesses in Boundaries	27,275
Front Street Bus Improvement - Assessment Levied on Businesses in Boundaries	2,130
Debt Service Funds	
LID Fund - Special Assessments Not Yet Due	370,832
Capital Project Funds	
Central Business Downtown - Parking Permits	60
Parks & Recreation Capital - Private Contributions	10,871
Fire Capital - Fire Training Services	255
Total Deferred/Unearned Revenue for Governmental Funds	$6,533,427

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Classification of Interfund Transactions

Interfund transactions are classified as follows:

- Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the City.
- Transfers to support the operations of other funds are recorded as "Transfers" and classified with "Other Financing Sources or Uses."
- Contributions to the capital of enterprise or internal service funds (transfers between those funds and the general capital assets account group), transfer to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as transfers and reported as non-operating revenues.
- Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. As of December 31, 2012, there were no advances to/from any funds.

Interfund Loans and Receivables

The City uses Interfund loans as a way to fund short term capital requirements. As Equipment Rental has funds available for investment, it is typically used for these loans. Park and Recreation borrowed $600,000 in 2013 to complete a Ballfield complex project to be repaid over a 5 year term. The 2013 year-end balance was $499,336.

Interfund Transfers

Interfund transfers represent subsidies and contributions provided to other funds with no corresponding debt or promise to repay. General Fund transfers are primarily used to: 1) allocate the portion of utility taxes that are designated to support Parks and Recreation and Law and Justice Capital programs; and 2) support the Public Safety dispatch operation with a portion of the telephone tax. Other transfers generally represent debt service and capital project funding. The following table depicts interfund operating transfer activity during 2013.

INTERFUND TRANSFERS

	Transfer In				
Transfer out	**Cumulative Reserve**	**Non Major Gov't**	**Wastewater**	**Water**	**Total**
General Fund	$0	$3,019,305	$0	$0	$3,019,305
Non-Major Governmental	0	2,519,302	0	0	2,519,302
Transit	0	10,000	0	0	10,000
Wastewater	0	25,641	0	1,165,000	1,190,641
Water Operating Fund	50,000	31,558	32,939	0	114,497
Stormwater	0	0	200,000	0	200,000
Total	$50,000	$5,605,806	$232,939	$1,165,000	$7,053,745

CAPITAL ASSETS

CAPITAL ASSET ACTIVITY

	Balance 1/1/13	**Additions**	**Adjustments**	**Deletions**	**Balance 12/31/13**
Governmental Activities					
Capital Assets - Not Depreciated					
Land	$14,241,145	$498,096	$0	($189,596)	$14,549,645
Construction in Progress	7,582,846	14,601,577	(6,361,036)	(4,569)	15,818,818
Total Capital Assets - Not Depreciated	21,823,991	15,099,673	(6,361,036)	(194,165)	30,368,463
Capital Assets - Depreciated					
Buildings & Structures	57,102,991	321,550	0	(81,255)	57,343,286
Other Improvements	13,246,840	319,283	2,126,321	0	15,692,444
Equipment & Machinery	13,252,963	4,794,635	3,822,344	(1,730,066)	20,139,876
Infrastructure	246,957,442	247,394	4,234,715	0	251,439,551
Capitalized Leases	642,212	0	(642,212)	0	0
Total Capital Assets - Depreciated	331,202,448	5,682,862	9,541,168	(1,811,321)	344,615,157
Less Accumulated Depreciation					
Buildings & Structures	(19,871,192)	(1,322,805)	0	25,189	(21,168,808)
Other Improvements	(7,082,407)	(784,557)	0	0	(7,866,964)
Equipment & Machinery	(7,071,231)	(1,385,569)	(2,269,987)	467,133	(10,259,654)
Infrastructure	(154,243,626)	(6,458,164)	0	0	(160,701,790)
Capitalized Leases	(558,066)	0	558,066	0	0
Total Accumulated Depreciation	(188,826,522)	(9,951,095)	(1,711,921)	492,322	(199,997,216)
Total Capital Assets - Depreciated Net	142,375,926	(4,268,233)	7,829,247	(1,318,999)	144,617,941
Gov't Activities Capital Assets - Net	164,199,917	10,831,440	1,468,211	(1,513,164)	174,986,404

	Balance 1/1/13	Additions	Adjustments	Deletions	Balance 12/31/13
Internal Service Funds - Gov't Activities					
Capital Assets - Not Depreciated					
Construction in Progress	0	785	0	0	785
Capital Assets - Depreciated					
Buildings	37,397	0	0	0	37,397
Other Improvements	572,993	0	0	0	572,993
Machinery	23,529,507	2,050,973	(3,180,132)	(837,005)	21,563,343
Total Capital Assets - Depreciated	24,139,897	2,050,973	(3,180,132)	(837,005)	22,173,733
Less Accumulated Depreciation					
Buildings	(25,982)	(1,852)	0	0	(27,834)
Other Improvements	(25,300)	(28,650)	0	0	(53,950)
Machinery	(14,273,591)	(1,211,518)	1,711,921	715,310	(13,057,878)
Total Accumulated Depreciation	(14,324,873)	(1,242,020)	1,711,921	715,310	(13,139,662)
Total Capital Assets - Depreciated Net	9,815,024	808,953	(1,468,211)	(121,695)	9,034,071
Total Capital Assets - Gov't Activities	$174,014,941	$11,641,178	$0	($1,634,859)	$184,021,260
Business Type Activities					
Capital Assets - Not Depreciated					
Land	$5,582,170	$0	$0	$0	5,582,170
Construction in Progress	13,576,826	19,347,530	(2,017,562)	0	30,906,794
Total Capital Assets - Not Depreciated	19,158,996	19,347,530	(2,017,562)	0	36,488,964
Capital Assets - Depreciated					
Buildings & Structures	88,362,832	0	0	0	88,362,832
Other Improvements	137,369,293	898,203	1,438,945	0	139,706,441
Equipment & Machinery	35,406,911	189,962	0	(997,379)	34,599,494
Intangibles	1,574,217	0	0	0	1,574,217
Total Capital Assets - Depreciated	262,713,253	1,088,165	1,438,945	(997,379)	264,242,984
Less Accumulated Depreciation					
Buildings & Structures	(52,837,742)	(1,999,614)	0	0	(54,837,356)
Other Improvements	(58,275,100)	(2,886,575)	0	0	(61,161,675)
Equipment & Machinery	(15,608,207)	(1,885,148)	0	867,564	(16,625,791)
Intangibles	(810,086)	(44,026)	0	0	(854,112)
Total Accumulated Depreciation	(127,531,135)	(6,815,363)	0	867,564	(133,478,934)
Total Capital Assets - Depreciated Net	135,182,118	(5,727,198)	1,438,945	(129,815)	130,764,050
Total Capital Assets - Business Activities	$154,341,114	$13,620,332	($578,617)	($129,815)	$167,253,014

NOTE - The adjustment column represents construction works in progress that were completed and either classified into the appropriate capital asset category, or expensed. Additionally, the Police vehicle fleet was transferred from the Equipment Rental Fund into Governmental Activities, in response to an expanded vehicle take-home program.

Depreciation expense was charged to functions/programs as follows:

General Government	$73,586
Security of Persons and Property	1,545,585
Physical Environment	5,545
Transportation	6,778,419
Economic Environment	58,351
Cultural & Recreational Environment	1,489,609
Capital Assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	1,242,020
Total Depreciation - Governmental Activities	$11,193,115
Transit	$1,034,864
Wastewater	3,465,893
Water	1,247,271
Irrigation	372,662
Stormwater	42,453
Airport	652,204
Total Depreciation - Business-Type Activities	$6,815,347

COMMITMENTS

Construction Commitments

The City had active construction projects as of December 31, 2013. Projects include the ongoing construction of a railroad grade separation project (underpass), widening and construction of existing streets and the planning and design work on new infrastructure in the redevelopment area. Also included are improvements to the water treatment plant and distribution system, improvements to the Wastewater facility and collection system and the rebuilding of the irrigation system.

CURRENT CONSTRUCTION PROJECTS

Project	Contract Amount	Spent to Date	Remaining Commitment
Street Construction	$21,528,807	$13,830,240	$7,698,567
Water	8,648,391	6,441,675	2,206,716
Wastewater Treatment Plant and Mains	3,527,635	2,469,548	1,058,087
Irrigation System Design & Rebuild	656,000	19,050	636,950
Total	$34,360,833	$22,760,513	$11,600,320

Street construction is being financed by gas tax and federal, state or local grants. Water improvements are funded by State Public Works Trust fund loans and water utility revenues/capital reserves. Wastewater improvements are being financed by State Public Works Trust Fund and Revolving Fund loans and wastewater utility revenues/capital reserves. Irrigation improvements are funded by irrigation capital rates/reserves.

NOTE 5 – PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost sharing multiple employer public employee defined benefit retirement plans. The Department of

Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov, or by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers,* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2 & 3

Plan Description

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

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Member Entitled to but Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer Contributions (1)	9.21% (2)	9.21% (2)	9.21% (3)
Employee Contributions	6.00% (4)	4.92% (4)	(5)

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013 Contributions	$82,395	$1,665,605	$383,683
2012 Contributions	80,387	1,440,289	320,028
2011 Contributions	87,318	1,250,567	270,108

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

Plan Description

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

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

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

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

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	% of Final Avg. Salary
Twenty or More Years	2.0%
Ten Years, Less than Twenty Years	1.5%
Five Years, Less than Ten Years	1.0%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Member Entitled to but Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	27,784

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer Contributions (1)	0.18%	5.23% (2)
Employee Contributions	0.00%	8.46%
State	N/A	3.36%

(1) The employer rates include the employer administrative expense fee currently set at 0.18%.
(2) The employer rate for ports and universities is 8.59%.

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

	LEOFF Plan 1	LEOFF Plan 2
2013 Contributions	$372	$1,074,916
2012 Contributions	474	1,023,087
2011 Contributions	536	986,431

PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

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

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost of living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Member Entitled to but Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Non-vested	2,167
Total	4,337

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PSERS Plan 2
Employer Contributions (1)	10.54%
Employee Contributions	6.36%

(1) The employer rate includes an employer administrative expense fee of 0.18%.

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

	PSERS Plan 2
2013 Contributions	$66,949
2012 Contributions	61,711
2011 Contributions	50,797

OTHER RETIREMENT SYSTEMS – VOLUNTEER FIREFIGHTERS' RELIEF AND PENSION FUND

The Volunteer Firefighters' Relief and Pension Fund System is a cost sharing multiple employer retirement system which was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of $30 per year, employer contributions of $30 per year, forty-percent of the Fire Insurance Premium Tax, and earnings from the investment of moneys by the Washington State Investment Board. However, members may elect to withdraw their contribution upon termination.

FIREMEN'S PENSION

The City has a single employer, defined benefit pension plan for Firefighters employed prior to March 1, 1970, and governed by Washington State Law RCW 41.26. Under the terms of the governing law, the pension member is entitled to payment from the City's pension plan for those benefits in excess of those calculated under the LEOFF plan.

The City's Firemen's Pension Fund is a closed group. No new members are permitted. Employees attaining the age of fifty who have completed 25 or more years of service are entitled to annual benefits of fifty-percent of their salary plus an additional two-percent for each year of service in excess of 25 years, up to a maximum of sixty-percent of salary. The pension plan also provides death and disability pension benefits plus sick benefits for eligible active and retired employees.

If the employee terminates his employment with the Fire Department and is not eligible for any other benefit under the Firemen's Pension, the employee is entitled to the following:

- Return of accumulated contributions less any benefits paid.
- When a Firefighter would have had 25 years of service, 2% of salary for each year of service.

Firefighters are no longer required to contribute to the Firemen's Pension. The City is required to contribute the amount necessary to fund the Firemen's Pension, using the aggregate projected benefit method. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to $.45 per $1,000 of assessed valuation of all taxable property of the City. The Firemen's Pension Fund also receives a proportionate share of the 25 percent of the tax on fire insurance premiums set aside by the state for all paid firemen in the state. Additional funding is provided by investment interest earnings.

During the year ended December 31, 2013, there were no plan amendments.

Contributions Required and Contributions Made

The City's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Under this method, the normal cost is a portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. (Thus, there is no unfunded actuarial accrued liability under this method.)

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

POLICE PENSION

The City has a single employer, defined benefit pension plan for Police Officers employed prior to March 1, 1970, and governed by Washington State Law RCW 41.20 and 41.26. Under the governing law, the pension member is entitled to payment from the City's pension plan for those benefits in excess of those calculated under the LEOFF plan. The City also covers four members who were ineligible under the State Law Enforcement Officers and Firefighters (LEOFF) Program.

The City's Police Pension Fund is a closed group. No new members are permitted. Employees who have completed 25 years or more of service are entitled to annual benefits of 50% of their salary plus an additional 2% for each year of service in excess of 25 years – up to a maximum of 60% of salary. The plan provides death and disability pension benefits plus sick benefits for eligible active and retired employees.

There are no longer any active employees who are eligible for this benefit.

During the year ended December 31, 2013, there were no plan amendments.

Contributions Required and Contributions Made

The Police Pension is a department within the General Fund. The City engaged Milliman U.S.A., Consultant & Actuaries, to perform the pension's actuarial study. They issued a valuation dated January 1, 2012. The valuation provided actuarially determined rates to accumulate sufficient assets to pay benefits when due rather than the current pay as you go basis.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

	Fire		
	2011	**2012**	**2013**
Annual Required Contribution (ARC)			
Amortization of UAAL	$544,525	$505,289	$505,289
Interest to EOY	19,058	20,212	20,212
ARC at EOY	563,583	525,501	525,501
Interest on NPO	(37,569)	(45,426)	(55,170)
Adjustment to ARC	(68,379)	(77,835)	(97,585)
Annual Pension Cost	594,393	557,910	567,916
Employer Contributions	656,618	801,531	672,849
Change in Net Pension Obligation	(62,225)	(243,621)	(104,933)
Net Pension Obligation (BOY)	(1,073,413)	(1,135,638)	(1,379,259)
Net Pension Obligation (EOY)	($1,135,638)	($1,379,259)	($1,484,192)

	Police		
	2011	**2012**	**2013**
Annual Required Contribution (ARC)			
Amortization of UAAL	$527,710	$529,561	$529,561
Interest to EOY	18,470	21,182	21,182
ARC at EOY	546,180	550,743	550,743
Interest on NPO	26,058	25,705	21,583
Adjustment to ARC	47,428	44,044	38,176
Annual Pension Cost	524,810	532,404	534,150
Employer Contributions	626,707	635,444	609,223
Change in Net Pension Obligation	(101,897)	(103,040)	(75,073)
Net Pension Obligation (BOY)	744,516	642,619	539,579
Net Pension Obligation (EOY)	$642,619	$539,579	$464,506

EMPLOYER PENSION CONTRIBUTIONS

	Fiscal Year Ended	Annual Pension Cost	Percent of Annual Pension Contributed	Net Pension Obligation
Fire	12/31/11	$594,393	110.5%	($1,135,638)
	12/31/12	557,910	144.0%	(1,379,259)
	12/31/13	567,916	118.0%	(1,484,192)
Police	12/31/11	$524,810	119.4%	$642,619
	12/31/12	532,404	119.0%	539,579
	12/31/13	534,150	114.0%	464,506

NOTE 6 – SELF-INSURANCE FUNDS

The City maintains Reserve Funds to provide for self insurance coverage in the areas of Unemployment Compensation, Medical/Dental coverage, and Workers' Compensation. In addition, the City maintains a Risk Management Fund to provide for property, liability, and other coverage.

UNEMPLOYMENT COMPENSATION

In 1978, the City of Yakima established an Unemployment Compensation Reserve Fund to provide unemployment compensation coverage for its employees, and thereby elected to participate with the State of Washington in a cost reimbursement instead of monthly premium program. In doing so, the City retained its right to appeal awards and determinations made by the State Department of Employment Security.

The City has contracted with Equifax Workforce Solutions to represent the City in appeal hearings and to provide audits of state awards.

The State of Washington invoices the City on a quarterly basis for reimbursement of claims which represent payment of unemployment compensation and related administrative costs. Resources accrue to the Unemployment Compensation Reserve Fund through monthly charges made to each Operating Fund based on employee earnings. Normal accrual rates have been between .5 and .75 percent of gross payroll, while costs under the monthly premium program would have been approximately three-percent of payroll. The City has achieved considerable savings. Interfund premiums are based primarily upon the insured funds claims experience and are reported as quasi external interfund transactions, a total for 2013 of $190,978. Incurred but not reported claims of $39,322 have been accrued as a liability.

SELF-INSURED MEDICAL / DENTAL PROGRAM

The City, in August, 1979, self insured its medical and dental programs for all eligible employees (temporary employees and employees hired to work less than half time are not eligible to participate in the plan). The City's Human Resources Office administers the self insured program and claims payments. The third party administrator is Employee Benefit Management Services, Inc. (EBMS).

Each Operating Fund is charged an accrual amount per covered employee which would otherwise have been paid to an insurance carrier. These amounts are determined by the City based upon recommendations made by Emspring. Factors considered by the broker include the amount of claims paid the previous year, increases over prior years, claims administration costs, projected insurance industry inflation rates and the status of the Fund's Reserve. Interfund premiums to the Employee Health Benefit Reserve Fund for 2013 were $8,853,222. Incurred but not reported claims of $1,235,329 have been accrued as a liability.

In order to avoid catastrophic losses, the City reinsures the program by purchasing insurance known as "stop loss insurance." Two types of "stop loss" insurance are purchased: 1) individual stop loss; and, 2) aggregate stop loss, with both provided through Sunlife Insurance Co. Under the individual stop loss insurance, the City pays the first $225,000 of claims for an individual employee or dependent. Any charges accrued by an individual in excess of $225,000 in a calendar year are thereafter reimbursed by Sunlife, up to a lifetime maximum benefit of $1 million per person. The aggregate stop loss is designed to protect the City from multiple large claims which may not reach the individual stop loss attachment point ($225,000). The aggregate stop loss attachment point is calculated by determining the projected amount of claims for the year and adding an additional 25% of that amount (125% of projected claims).

WORKERS' COMPENSATION PROGRAM

The City self-insured its workers' compensation program for all employees except those covered by the LEOFF 1 Retirement System in July, 1984. This workers' compensation program provides coverage identical to the state administered workers' compensation program; however, the City pays only the direct injury related costs and certain administrative fees. The program is administered by the City's Human Resources Office with claims administration and safety services provided by Intermountain Claims, Inc.

Each Operating Fund is charged an appropriate accrual amount, per employee, based on rate requirements prescribed by the State of Washington. Each year the Reserve Fund is reviewed to determine a contribution rate which provides for an appropriate reserve. Interfund premiums to the Workers' Compensation Fund for 2012 were $966,270. Based on the claims manager's estimate, the City has accrued incurred but not reported claims of $736,065 at December 31, 2013.

In order to avoid catastrophic losses, the City "reinsures" the program by purchasing insurance known as "stop loss" insurance. This insurance is provided through Wells Fargo Insurance Services under a policy purchased from Safety National Casualty Corporation. Under the individual stop loss coverage, the City pays the first $550,000 of a claim and the insurance company pays (a) the balance up to $1 million for an individual claim or (b) the balance up to a maximum of $25 million for multiple claims arising from a single incident.

RISK MANAGEMENT PROGRAM

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Risk Management Fund was established in 1986 to account for its risk management program. Resources accrue to the fund through interfund premiums to operating funds for appropriate insurance coverage and the replenishment and building of reserves for potential liability claims. City contributions to the Risk Management Reserve Fund for 2013 were $3,145,532. The fund provides for administration, legal services, and claims adjustment and for the purchase of property, general liability, and other insurance coverage.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that has been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider recent claim settlement trends, inflation, and other economic or social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims. Estimated recoveries, for example from subrogation, are another component of the claims liability estimate. Based on these factors, the claims manager's estimate of claims liability at December 31, 2013, is $1,521,000.

Property Insurance Coverage
The City of Yakima purchases property insurance and boiler and machinery insurance from Affiliated FM Insurance Company covering loss or damage to City owned property from various perils including earthquake and flood. The policy is subject to a $100,000,000 limit per occurrence and a $100,000 per occurrence deductible.

Cities Insurance Association of Washington
The City of Yakima became an associate member of the Cities Insurance Association of Washington (CIAW) effective December 14, 2005, and became a member of CIAW effective September 1, 2010.

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2012, there are 240 members in the program.

The City participates in the CIAW insurance pool administered by Canfield & Associates. The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive, and collision, equipment breakdown and crime protection, and liability, including general, automobile, and wrongful acts, are included to fit members' various needs. The City purchases property and equipment breakdown coverage separate from the pool.

The program acquires liability insurance through their Administrator, Canfield, and is subject to a per-occurrence self-insured retention of $200,000 per occurrence. Members are responsible for individual deductibles, which vary by member. The City has a $100,000 self-insured retention and the pool is responsible for claims between $100,000 to $200,000. Insurance covers insured losses over $200,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $200,000 of the self-insured retention. The program also purchases a Stop Loss Policy to cap the total claims paid by the program in any one year.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Copies of the CIAW pool's annual report may be obtained by writing to 451 Diamond Drive, Ephrata, WA 98823.

Washington State Transit Insurance Pool
The City of Yakima Transit Division is insured for liability insurance through the Washington State Transit Insurance Pool (WSTIP). The City of Yakima Transit Division joined WSTIP on September 1, 2005.

The City of Yakima Transit Division has liability coverage, which is not subject to a deductible amount, and public official liability coverage, subject to a deductible amount of $5,000, with the Washington State Transit Insurance Pool ("WSTIP"), Olympia, Washington. The per occurrence and aggregate limits of liability of the liability coverage through WSTIP are $12,000,000. Since joining WSTIP on September 1, 2005, the City of Yakima Transit Division has not presented any claims to WSTIP that exceeded its coverage limits through WSTIP.

WSTIP is a 25-member self insurance program with public transit members who provide transit services and is located in Olympia, Washington. WSTIP supplies Yakima Transit auto liability, general liability, and public officials' liability coverage.

The Washington State Transit Insurance Pool was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member Transit Systems programs of joint self insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months notice. The Pool underwriting and rate setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited yearly by the Washington State Auditor.

WSTIP LIABILITY COVERAGE

Risk	Coverage Period	Coverage
Auto Liability	1/1/13 - 12/31/13	$12,000,000 per occurrence with a $0 deductible
General Liability	1/1/13 - 12/31/13	$12,000,000 per occurrence with a $0 deductible
Public Officials	1/1/13 - 12/31/13	$12,000,000 per claim / aggregate with a $5,000 deductible

Coverage for public official liability is on a "claims made" basis. All other coverages are on an "occurrence" basis. Changes in the balance of claims liability during 2013 follows:

UNPAID CLAIMS

	2013	2012	2011
Unpaid Claims, January 1	$1,219,000	$690,000	$553,000
Incurred Claims (incl IBNR's)	1,482,650	1,346,198	825,951
Claim Payments (incl direct legal costs)	(1,180,650)	(817,198)	(688,951)
Unpaid Claims, December 31	$1,521,000	$1,219,000	$690,000

NOTE 7 – LONG-TERM DEBT AND CAPITAL LEASES

The State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the City.

LEGAL DEBT PERCENTAGE

			Limit by Section	Cumulati ve Limit
I.	General Purpose			
	Without a Vote (includes capital	1.5%		
	With a Vote	1.0%	2.5%	2.5%
II.	Utilities Purpose		2.5%	5.0%
III.	Open Space and Parks Facilities		2.5%	7.5%
	Total Legal Limit		7.5%	

The basic percentages for Section I are the maximum levels of indebtedness those sections may incur. However, utility or parks indebtedness may each exceed 2.50% and reduce the general indebtedness margin. The percentages are applied to the taxable assessed value (regular levies) of about $5.5 billion, resulting in the debt limits, as of December 31, 2013, for the City as follows:

DEBT LIMITS

	Without a Vote	With a Vote		
	General Purpose 1.5%	General Purpose 2.5%	Utilities 5.0%	Open Space & Parks 7.5%
Legal Limit	$82,417,456	$137,362,427	$274,724,854	$412,087,281
Net Outstanding Indebtedn	30,415,810	30,503,326	30,503,326	30,503,326
Margin Available	$52,001,646	$106,859,101	$244,221,528	$381,583,955

(1) Indebtedness is the outstanding debt less cash, investments, and tax receivables available to redeem debt.

There have been no material violations of finance related legal or contractual provisions in any of the funds of the City. All bonded debt of the City is tax-exempt. We believe the City to be in compliance with applicable IRS & SEC regulations.

The accompanying schedule of long term debt provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for 2013.

LONG-TERM LIABILITIES

	Balance 1/1/2013	Additions	Payments/ Retirements	Balance 12/31/2013	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt					
Bonds	$20,501,653	$5,000,000	$2,448,575	$23,053,078	$2,153,884
Intergovernmental Loans	3,737,410	0	236,375	$3,501,035	318,041
Contractual Agreement - Yakima Co	300,690	0	300,690	0	0
Special Assessment					
Notes	575,000	0	146,200	428,800	75,017
Lease Purchase Agreements	520,151	4,943,207	89,594	5,373,764	800,432
Unfunded Pension/OPEB Liability	13,365,341	3,109,055	0	16,474,396	0
Vacation/Sick Leave Accrual	7,018,769	288,530	0	7,307,299	0
Total General Long-Term Debt	$46,019,014	$13,340,792	$3,221,434	$56,138,372	$3,347,374
Business Type Activities					
Revenue Debt Payable					
Revenue Bonds	$20,525,000	$0	$1,335,000	$19,190,000	$1,275,000
Intergovernmental Loans	12,020,577	10,216,566	1,169,246	21,067,897	1,621,778
Unam Dbt Iss Cost/Prem/Disc/Def Amt	406,361	0	45,949	360,412	0
Total Revenue Debt	$32,951,938	$10,216,566	$2,550,195	$40,618,309	$2,896,778
Total Long Term Debt	$78,970,952	$23,557,358	$5,771,629	$96,756,681	$6,244,152

GENERAL OBLIGATION DEBT

General obligation bonds consist of serial and term bonds, to be retired through the fiscal year ending December 31, 2032. The City levies a special property tax; collects motel/hotel taxes, Business License fees, utility taxes; and receives State sales tax credits and gas tax for the principal and interest payments due within a fiscal year and provides the amounts in the respective Debt Service Fund.

June 10, 2013, the City of Yakima issued a private placement $5,000,000 Limited Tax General Obligation Bond. The Proceeds are being used for street improvements, approved by City Council on May 7, 2013. The bond bears interest of 1.67% and is being amortized over a 15 year time frame, although the current bond matures on June 20, 2018. At such time the maturity date may be extended and the interest rate reset. General Fund is the source of debt service.

GENERAL OBLIGATION BONDS

	Date of Final Maturity	Interest Rate	Original Issue	Outstanding 12/31/13	Average Annual Debt Service
Special Property Tax Levy					
2004 Fire Improvement Bonds Ref 1995	12/01/14	2.0% - 3.5%	$2,300,000	$285,000	$294,788
Regular Property Tax Levy					
2005 Parks Capital Projects	12/01/15	4.0% - 4.5%	755,000	175,000	94,542
2008 Fire Ladder Truck	12/01/21	3.25% - 4.0%	760,000	500,000	74,229
2013 Street Project	06/20/18	1.67%	5,000,000	4,854,959	74,229
Total Regular Property Tax Levy			6,515,000	5,529,959	
Regular Property Tax Levy/Real Excise Tax					
2007 River Road Street Project Bond	05/01/17	4.0% -5 .0%	1,765,000	800,000	220,665
2007 Fire Station West Valley Rehab Bond	05/01/22	4.0% - 5.0%	815,000	550,000	73,433
2007 Downtown Revitalization Project Bond	05/01/22	4.0% - 4.5%	1,490,000	1,000,000	133,424
2008 Third Ave/Mead Walnut St Project Bond	12/01/19	3.25% - 4.0%	2,190,000	1,270,000	240,732
Total Regular Property Tax Levy/Real Excise Tax			6,260,000	3,620,000	
Motel/Hotel Tax					
2004 Conv Center Expansion Bonds Ref 1996	11/01/19	2.0% - 4.2%	4,175,000	2,170,000	415,278
Public Facilities District(State Sales Tax Credit)					
2007 Conv Center Addition Refunding 2002	05/01/26	4.0% - 5.0%	4,910,000	4,595,000	457,247
2009 Capitol Theatre Expansion	12/01/32	3.0% - 6.6%	7,035,000	6,110,000	415,278
Total Public Facilities District			11,945,000	10,705,000	
Business Licenses & Real Estate Excise Tax					
2003 Sundome Expansion	12/01/23	2.34%-4.72%	1,430,528	743,119	148,446
Utility Tax					
2003 Criminal Justice/I-82 Bonds ref 1994	12/01/13	4.35%-5.25%	4,155,000	0	515,625
			$36,780,528	$23,053,078	

REVENUE BONDS

Water / Wastewater / Irrigation revenue bonds consist of serial and term bonds, to be retired through the fiscal year ending December 31, 2034. The principal and interest for the water / wastewater parity revenue bonds are provided by the results of operations. Principal and interest on Irrigation System Bonds are provided by capital rates.

UTILITY REVENUE BONDS

	Date of Final Maturity	Interest Rate	Original Issue	Outstanding 12/31/13	Average Annual Debt Service
2003 A Wastewater Revenue Bonds	11/01/23	2.0%-5.0%	$7,390,000	$255,000	$0
2004 Irrigation Revenue Bonds	09/01/34	2.0%-4.8%	5,215,000	4,220,000	320,062
2008 Water Revenue Bonds (ref of	11/01/18	4.0-5.0%	1,883,951	1,030,000	235,080
2008 Wastewater Revenue Bonds	11/01/27	4.0-5.0%	5,440,000	4,330,000	413,232
2012 Wastewater Rev Bonds (2003	11/01/23	2.0%-5.0%	9,400,000	9,355,000	1,164,794
			$29,328,951	$19,190,000	

(1) See 2012 Wastewater Revenue Bonds debt service.

The following Schedule sets forth revenue debt service requirements to maturity (in thousands) and depicts both bond and intergovernmental loans and contracts.

REVENUE DEBT SERVICE

	Bonded Debt	Interest	Notes and Contracts	Interest
2014	$1,405	$740	$1,622	$158
2015	1,435	697	1,752	142
2016	1,475	654	1,541	132
2017	1,515	613	1,426	123
2018	1,575	556	1,426	113
2019-2023	7,600	1,894	6,577	427
2024-2028	2,550	700	4,617	209
2029-2034	1,635	286	2,107	41
	$19,190	$6,140	$21,068	$1,345

At December 31, 2013, the City had $1,760,713 in restricted net position for debt service for the enterprise funds. These are in compliance with reserve requirements as contained in the various indentures.

INTERGOVERNMENTAL LOANS AND CONTRACTUAL AGREEMENTS

The City participated in a program administered by the State's Department of Community Development on behalf of the Public Works Board. The program provides financial assistance for general government activities, such as street / bridge improvements, or proprietary activities, such as water or sewage projects. The City has several loans through the Washington State Loan Programs as described in the following chart.

PUBLIC WORKS TRUST FUND LOANS

	Interest	Maturity Date	Maximum Authorized	Outstanding 12/31/2013
General Long-Term Debt				
Arterial Street Gas Tax				
PW-5-95-791-052 - Fair Avenue Improvements	1.0%	07/01/15	$1,000,000	$106,501
PC08-951-052 - RR Grade Separations-Lincoln Ave/MLK Jr Blvd	0.5%	07/01/28	3,000,000	2,315,789
Real Estate Excise Tax				
L1000030-0 - Grade Separation Stormwater Drainage	3.0%	06/01/30	1,214,000	982,696
General Fund Sales Tax				
CERB loan #C95-107 - Utilities-Madison Ave. and 8th, "J" St & 8th	6.0%	07/01/16	425,448	96,049
Sub-Total General Long-Term Debt				3,501,035

	Interest	Maturity Date	Maximum Authorized	Outstanding 12/31/2013
Revenue Debt				
Wastewater Operating Revenue				
PW-5-94-784-049 - Wastewater Collection System Improvements	1.0%	07/01/14	1,220,900	$40,899
PW-5-95-791-053 - Headworks/Digester Rehabilitation	1.0%	07/01/15	3,030,558	326,748
PW-5-95-791-054 - WW Improvements King Street Collector	1.0%	07/01/15	188,430	23,371
PW-01-691-071 - Fruitvale Neighborhood WW/Water Project Ph I	0.5%	07/01/21	1,466,250	621,000
PW-05-691-064 - River Road Wastewater Improvement	0.5%	07/01/25	2,307,000	1,490,949
PW-07-962-019 - Ultra Violet Disinfection	0.5%	07/01/27	2,300,000	1,699,444
PC12-951-065 Wastewater Treatment Plant	0.5%	06/01/32	5,000,000	4,843,425
PC13-961-059 Industrial Wastewater Anaerobic	0.5%	06/01/32	2,000,000	2,000,000
L11000008 - Wastewater Energy Efficiency Project	0.5%	03/31/33	503,538	503,558
Industrial Waste Anaerobic-Methane Utilitzation/Energy Cons	0.5%	03/31/33	3,054,264	421,132
Water Operating Revenue:				
PW-03-027 - Naches River Water Treatment Plt Impr	0.5%	07/01/23	2,694,000	1,347,250
SRF-04-65104-037 - Naches River Water Treatment Filter Rehab	0.5%	10/01/25	966,772	555,298
PC08-951-051 - New Water Well	0.5%	07/01/28	2,257,200	1,817,232
Automated Meter Reading System	0.5%	07/01/33	5,000,000	4,282,198
PC13-961-074 - Design Water Treatment Plant Lagoon	1.5%	10/01/35	3,515,800	1,095,393
Sub-Total Revenue Debt				21,067,897
Total Intergovernmental Loans				$24,568,932

The Public Works Trust Fund loans have a term not to exceed twenty years and require 1/19th of the original principal plus interest to be paid each July 1st. These are subordinate to utility systems' parity debt and do not require a full faith and credit pledge.

The following schedule sets forth the general obligation debt and intergovernmental loans and contracts, debt service requirements including interest, to maturity (in thousands).

GENERAL OBLIGATION DEBT SERVICE

	Bonded Debt	Interest	Notes and Contracts	Interest
2014	$2,154	$947	$318	$106
2015	1,941	876	291	48
2016	1,902	813	241	44
2017	1,982	743	209	39
2018	5,136	650	210	37
2019-2023	5,108	2,384	1,076	148
2024-2028	3,065	1,025	1,124	81
2029-2033	1,765	298	32	17
	$23,053	$7,736	$3,501	$520

At December 31, 2013, the City had $422,583 available in debt service funds to service the General Obligation Bonds and notes.

There are a number of other limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

SPECIAL ASSESSMENT DEBT WITH GOVERNMENTAL COMMITMENT

Debt service requirements for special assessment notes are met by assessments levied against property owners. Special assessment debts are notes that are due as moneys become available from payments on individual assessments.

OUTSTANDING SPECIAL ASSESSMENT DEBT

LID #1056; 12/17/2015 Wastewater	$12,500
South 7th, 8th, & 9th Avenue Installment Note, 8.75% Interest	
LID #1057; 05/01/2016 Wastewater	25,800
North 84th Avenue & Hawthorne Drive - Inst Note, 9.25% Interest	
LID #1058; 05/01/2016 Wastewater	23,000
North 90th Avenue, 94th Place, Yakima Ave - Inst Note, 9.25% Interest	
LID #1060; 06/01/2020 Wastewater	99,000
North 85th Avenue & Kail Drive- Installment Note, 5.50% Interest	
LID #1061; 04/15/2020 Wastewater	268,500
Simpson Lane - Installment Note, 5.50% Interest	
	$428,800

Debt service requirements for special assessment notes/bonds are met by assessments levied against property owners. Pursuant to RCW 35.54, the City maintains a Local Improvement Guarantee Fund for the purpose of guaranteeing, to the extent of the fund, the payments of its LID bonds. The fund balance at December 31, 2012, of the LID Guarantee Fund totaled $25,214.

LEASE PURCHASE AGREEMENTS

General Capital Assets

As part of the City's capital equipment budgeting program, selected items are obtained via lease purchase and municipal lease/deferred purchase plans. Since the leases are financing agreements which transfer ownership to the City at the end of the lease term, the City records the present value of future lease payments as a capital outlay expenditure and as an offset to other financial sources in the year that the asset is received. The present value of payments due in future periods is shown as a liability in the financial statements and the cost of the asset is recorded in the financial statements.

On March 19, 2013 the City of Yakima borrowed $310,414 using Washington State's Local Option Capital Lending (LOCAL) program. The proceeds were used to purchase one Fire apparatus, approved by City Council on December 4, 2012. The certificates of participation have an all inclusive financing cost of 1.93% and will be repaid annually over the next 10 years out of General Fund.

On August 16, 2013 the City of Yakima borrowed $4,632,792 from Washington State's Local Option Capital Lending (LOCAL) program. The proceeds were used to purchase 74 Police vehicles for expansion of the assigned Police vehicle program approved by City Council on June 4, 2013. The certificates of participation have an all inclusive financing cost of 1.619% and will be repaid annually over the next 6 years out of General Fund.

LEASED EQUIPMENT

Two High Speed Laser Printer / Copier	$10,147
Two Fire Apparatus	420,411
One Fire Apparatus	310,414
74 Police Vehicles; 70 Airpacks for Fire Service	4,632,793
Total	$5,373,765

The following is a schedule of the future minimum lease payments under the above capital leases and the present value of net minimum lease payments at December 31, 2013, for the fiscal year listed:

LEASE PAYMENTS

Due in 2014	$995,552
Due in 2015	985,108
Due in 2016	985,109
Due in 2017	985,109
Due in 2018	985,109
Due in 2019-2023	1,211,930
Total Minimum Lease Payments	$6,147,917
Less: Amount Representing Interest	774,155
Present Value of Minimum Lease Payments	$5,373,762

UNFUNDED POST EMPLOYMENT BENEFIT LIABILITIES

The City maintains two single employer defined benefit pension plans, Firemen's Pension and Police Pension, which are closed systems, covering Firemen and Police Officers hired prior to March 1, 1970. Both plans had their first annual actuarial valuation as of March 31, 1989. The required contributions identified in this and subsequent studies were the basis for recording the unfunded pension liability since 1989, with the most recent study performed as of January 1, 2012.

Starting in 2008, the City implemented GASB 45 for Other Post Employment Benefits (OPEB), and initial actuarial evaluations were performed as of January 1, 2008. By State statute, the City is required to provide healthcare benefits for certain retired police officers and firefighters. The City's self-insured medical plan allows retirees and the eligible dependents to self-pay premiums using the same rate as active employees, until they reach age 65, thereby creating an "implicit rate subsidy". All three of the programs are pay as you go.

OUTSTANDING LIABILITIES

	Balance 1/1/13	Additions	Balance 12/31/13
Police Pension	$5,109,547	($75,073)	$5,034,474
OPEB Fire - Medical	3,146,203	1,409,465	4,555,668
OPEB Police - Medical	2,625,711	1,230,395	3,856,106
OPEB Non-LEOFF - Medical	2,483,880	544,268	3,028,148
Total	$13,365,341	$3,109,055	$16,474,396

Both the Police Pension and Police OPEB are paid out of a department in the General Fund. The Fire OPEB is paid through the Firemen's pension trust fund. The non-LEOFF retiree benefits are being paid annually through the Employees Health Benefit Reserve fund. The unfunded pension liability will be adjusted annually by comparing actual expenditures for benefits to the actuarially determined contribution.

See Note 5 for additional information on the pension funds, and Note 11 for additional information on Other Post Employment Benefits.

NOTE 8 – CONTINGENCIES AND LITIGATIONS

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

SECTION 108 LOAN PROGRAM

In 2003, the City was authorized to administer a Housing and Urban Development (HUD) Section 108 Loan program. HUD has authorized the City to lend up to a maximum of $6.945 million in two separate loan pools ($4 million in 2003 and $2.945 million in 2005). These federal loans are available for the purpose of funding property rehabilitation for economic development activities that will create new jobs within the target area. As of December 31, 2013, the City has approved all its authorized maximum Section 108 loans of $6.945 million. The nature of this program is the City approves qualified projects for the loan within HUD guidelines and acts as a conduit for HUD funds. The loan proceeds flow directly to the ultimate Corporate Borrower. Payments flow from the Corporate Borrower to the City's Custodian and then to HUD. The loans are on an amortization schedule from 10 years to 25 years. The HUD contract specifically provides that the loans are not full faith and credit obligations of the City, but instead, future Community Development Block Grant (CDBG) allocations are pledged on these loans. The City has entered into agreements to collateralize their position within HUD underwriting guidelines. In 2005, one of the loans was defeased and another defeased in 2009. Additionally, the City has been awarded a $1 million Economic Development Initiative (EDI) grant from HUD as a protection in case of a default. As of December 31, 2013, there is only one HUD 108 loan remaining.

POTENTIAL LITIGATION

The City is a defendant in various legal actions and claims that arise during the normal course of business, some of which, but not all, are covered by insurance. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable and, in the opinion of City management, the final outcome of these matters, taken individually or in the aggregate, are not expected to have a material adverse effect on the governmental operations or financial position of the City. The City has provided for reserves to address these matters, which include but are not limited to, lawsuits described below. City management believes these reserves and/or insurance are adequate to cover such matters.

The City is a party to a lawsuit in federal court in Case No. 12-CV-3108-TOR where the plaintiffs claim that the City is in violation of Section 2 of the federal Voting Rights Act and request redistricting. Plaintiffs have not requested damages other than in the form of the attorneys' fees and costs that could be awarded by the court if the claim is successful. Such a fee and cost award could be substantial in amount. On August 22, 2014, Judge Thomas O. Rice entered an "Order on Cross-Motions for Summary Judgment" in which he concluded that plaintiffs had successfully established liability, and directed the parties to meet and confer and submit a proposed injunction and a proposed remedial districting plan on or before October 3, 2014.

The City is a party to a lawsuit in federal court in Case No. 13-CV-3012-TOR where the plaintiff alleges his constitutional rights were violated by City police as a result of felony charges, his conviction in 1996 and subsequent imprisonment. The plaintiff brought a claim after a second trial in 2010 where he was acquitted. The City and a police officer are codefendants, and the plaintiff claims damages in the approximate amount of $20 million plus fees and costs. On July 7, 2014, Judge Thomas O. Rice dismissed the case with prejudice. On August 1, 2014, the plaintiff filed a Notice of Appeal, and the case is pending before the U.S. Court of Appeals for the Ninth Circuit in Case No. 14-35651.

The City is a party in a lawsuit in Yakima County Superior Court Case No. 10-2-00989-1 for wrongfully evicting a tenant of the Yakima Air Terminal, a City-owned municipal airport that had previously been co-owned by the City and Yakima County. On December 10, 2013, the Washington State Court of Appeals issued its opinion that the tenant was improperly evicted. The alleged successor to the tenant claims damages in excess of $7 million, plus fees, costs, interest and treble damages. Another entity identifying itself as a secured creditor to the tenant has filed a claim for $3,408,478.72, plus fees, costs, interest and other unliquidated damages against the City and the County, and subsequently filed a lawsuit in Yakima County Superior Court Case No. 14-2-00967-3. It is unknown when a judgment for damages, if any, will be entered. Any such damages would be allocated equally between the City and the County.

NOTE 9 – FUND BALANCE CLASSIFICATION

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which require the City to classify its fund balances based on spending constraints imposed on the use of resources. The following is a schedule of the ending fund balance as of December 31, 2013.

2013 FUND BALANCE

Fund Balance	General Fund	Community Dev	Cumulative Reserve	Other Gov't Funds	Total
Nonspendable					
Inventory	$34,505	$0	$0	$0	$34,505
Permanent Fund	0	0	0	622,896	622,896
Total Nonspendable	34,505	0	0	622,896	657,401
Restricted					
Emergency Services	0	0	0	210,839	210,839
Arterial Street Const & Maint	0	0	0	2,181,881	2,181,881
Housing & Economic Dev	0	522,382	0	239,488	761,870
Public Safety	0	0	0	934,301	934,301
Debt Service	0	0	0	422,583	422,583
Capital Improvements	0	0	2,838,419	1,741,673	4,580,092
Tourism, Conv & Bus Impr	0	0	0	982,839	982,839
Total Restricted	0	522,382	2,838,419	6,713,604	10,074,405
Committed					
Community Relations	0	0	0	550,233	550,233
Parks and Recreation	0	0	0	582,462	582,462
Signalization Maintenance	0	0	0	1,172,379	1,172,379
Debt Service	0	0	0	53,138	53,138
Other Purposes	0	0	0	1,282,947	1,282,947
Tourism, Conv & Bus Impr	0	0	0	387,114	387,114
Total Committed	0	0	0	4,028,273	4,028,273
Assigned					
Parks and Recreation	0	0	0	239,591	239,591
Public Safety	0	0	0	2,059,237	2,059,237
Debt Service	0	0	0	34,240	34,240
Tourism, Conv & Bus Impr	0	0	0	72,546	72,546
Total Assigned	0	0	0	2,405,614	2,405,614
Unassigned	9,691,884	0	0	0	9,691,884
Total Fund Balance	$9,726,389	$522,382	$2,838,419	$13,770,387	$26,857,577

WATER AND WASTEWATER UTILITIES

For the purposes of revenue bond debt issuance, the water and wastewater utilities are combined in a single segment (i.e., the System). Therefore, investors in the revenue bonds rely on the revenue generated by both activities for repayment. Investors in irrigation revenue bonds rely solely on the revenue generated from the irrigation utility for repayment. Summary financial information for the System and irrigation utility follows.

SYSTEM INFORMATION

	Water / Wastewater	Irrigation
Condensed Statement of Net Position		
Assets		
Current Assets	$16,604,695	$1,467,473
Restricted Assets	1,725,276	35,437
Capital Assets	126,238,001	18,014,487
Total Assets	$144,567,972	$19,517,397
Liabilities		
Current Liabilities	$7,497,733	$326,177
Noncurrent Liabilities	33,675,336	3,999,017
Total Liabilities	$41,173,069	$4,325,194
Net Position		
Invested in Capital Assets, Net of Related Debt	$89,858,430	$13,821,109
Restricted	1,725,276	35,437
Unrestricted	11,811,200	1,335,659
Total Net Position	$103,394,906	$15,192,205
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating Revenues		
Charges for Services	$27,145,674	$2,981,698
Other Operating Revenues	134,061	4,243
Total Operating Revenues	27,279,735	2,985,941
Operating Expenses		
Operations and Maintenance	20,573,369	1,492,811
Depreciation	4,713,164	372,662
Total Operating Expenses	25,286,533	1,865,473
Operating Income (Loss)	$1,993,202	$1,120,468
Non-Operating Revenues (Expenses)		
Miscellaneous Interest (Net)	($635,040)	($203,570)
Other Non-Operating (Net)	(234,996)	0
Total Non-Operating Revenues (Expenses)	($870,036)	($203,570)
Income (Loss) Before Contributions and Transfers	$1,123,166	$916,898

	Water / Wastewater	Irrigation
Capital Contributions	$1,630,718	$0
Operating Transfers (Net)	92,801	0
Change in Net Position	2,846,685	916,898
Total Net Position - January 1	100,548,221	14,275,307
Total Net Position - December 31	$103,394,906	$15,192,205
Condensed Statement of Cash Flows		
Net cash Provided (Used)		
Operating Activities	$7,817,468	$1,493,392
Capital and Related Financing Activities	(9,871,140)	(799,197)
Investing Activities	2,466,594	(507,671)
Net Increase (Decrease)	412,922	186,524
Beginning Cash and Cash Equivalents	3,138,199	63,040
Ending Cash and Cash Equivalents	$3,551,121	$249,564

NOTE 11 – OTHER POSTEMPLOYMENT BENEFIT PLANS

BENEFITS OTHER THAN PENSION BENEFIT

In addition to providing pension benefits, the City provides certain health care (100% of medically necessary costs) and life insurance benefits for retired employees under the City's Firemen's and Police Pensions as prescribed by state statutes. Current employees under these two pensions become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree health care insurance and life insurance benefits is recognized as an expenditure as claims are paid. Both plans are being funded 100% by the City on a pay as you go basis. For 2013, the costs totaled $552,171 for the Firemen's Pension which has a total of 70 participants currently eligible to receive benefits and $732,690 for the Police Pension which has a total of 68 participants currently eligible to receive benefits.

In 2008 the City engaged Milliman USA Consultants and Actuaries to perform the first actuarial valuation of other postemployment benefits (OPEB) obligations for LEOFF I Fire/Police and Non-LEOFF I employees, in accordance with GASB 45. The valuation was updated in 2012.

LEOFF I EMPLOYEES

Under RCW law, retiree medical, hospital, and nursing care, as long as a disability exists, are covered for any active firefighter hired prior to March 1, 1970. For any retired officer hired prior to March 1, 1970, retiree medical, hospital, and nursing care are covered at the discretion of the Retirement Board. Members retired prior to 1961 for reasons other than duty disability are not eligible for retiree medical benefits during retirement. Under LEOFF Law, the necessary hospital, retiree medical, and nursing care expenses not payable by Workers' Compensation, Social Security, etc. are covered for any active or retired LEOFF 1 member.

Effective January 1, 2007, the City began reimbursing dental costs up to an annual maximum of $500 for LEOFF I Fire/Police employees.

Eligibility

Employees are eligible to receive lifetime retiree medical benefits upon service retirement after age 50 with at least five years of service. If they are not eligible to retire when leaving LEOFF, but have 20 years of service credit, they are eligible for retiree medical benefits when pension benefits commence. Employees also receive lifetime benefits upon disability.

Retiree Premiums

Funding Policy – Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay as you go financing requirements.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net Fire and Police OPEB obligation of $8,411,769 is included as a noncurrent liability on the Statement of Net Position.

ANNUAL OPEB COST AND NET OPEB OBLIGATION – LEOFF

	Fire		
	2011	**2012**	**2013**
Annual Required Contribution (ARC)			
Annual Normal Cost	$42,839	$45,837	$45,837
Amortization of UAAL	1,276,274	1,584,900	1,584,900
Interest	46,169	65,229	65,229
ARC at EOY	1,365,282	1,695,966	1,695,966
Interest on net OPEB Obligation	65,137	96,230	139,481
Adjustment to ARC	104,026	144,732	214,626
Annual OPEB Cost	1,326,393	1,647,464	1,620,821
Employer Contributions	781,717	566,185	552,171
Change in Net OPEB Obligation	544,676	1,081,279	1,068,650
Net Beginning OPEB Obligation	1,861,063	2,405,739	3,487,018
Net OPEB Obligation	$2,405,739	$3,487,018	$4,555,668

	Police		
	2010	**2011**	**2012**
Annual Required Contribution (ARC)			
Annual Normal Cost	$45,860	$19,732	$19,732
Amortization of UAAL	1,208,621	1,541,006	1,541,006
Interest	43,907	62,430	62,430
ARC at EOY	1,298,388	1,623,168	1,623,168
Interest on net OPEB Obligation	57,250	82,362	121,238
Adjustment to ARC	91,430	123,874	186,554
Annual OPEB Cost	1,264,208	1,581,656	1,557,852
Employer Contributions	840,870	609,767	732,690
Change in Net OPEB Obligation	423,338	971,889	825,162
Net Beginning OPEB Obligation	1,635,712	2,059,050	3,030,939
Net OPEB Obligation	$2,059,050	$3,030,939	$3,856,101

Funded Status and Funding Progress – As of January 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $51,959,000 and the actuarial value of the assets was $0, resulting in a UAAL of $51,959,000. A schedule of funding progress is provided as required supplementary information. This schedule provides information on the trend of funding ratio for the three most recent actuarial studies.

The City's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation is shown in the following chart.

OPEB CONTRIBUTIONS – LEOFF

	Valuation Date	Annual OPEB Cost	Percent of OPEB Contributed	Net OPEB Obligation
Fire	12/31/11	$1,326,393	58.9%	$2,405,739
	12/31/12	1,647,464	34.3%	3,487,018
	12/31/13	1,620,821	34.0%	4,555,668
Police	12/31/11	$1,264,208	66.5%	$2,059,050
	12/31/12	1,581,656	38.5%	3,030,939
	12/31/13	1,557,852	47.0%	3,856,101

NON-LEOFF I EMPLOYEES

The City of Yakima provides to its retirees employer-provided subsidies associated with postemployment medical benefits. Retirees eligible to receive pension benefit payments along with their qualifying dependents are eligible to remain on the medical insurance plan up to Medicare eligible age 65, by self-paying the entire composite premium rates which blend both active and inactive (i.e. retired) member claims history.

Eligibility

City members are eligible for retiree medical benefits after becoming eligible for retirement pension benefits (either reduced or full pension benefits). Spouses of retired members of Plan 1 of LEOFF are also eligible for benefits. Also, dependent children of retirees under the age of 25 are eligible for benefits.

Only people under age 65 are eligible for benefits.

Former members who are entitled to a deferred vested pension benefit are eligible to receive medical benefits after pension benefit commencement. Spouses under age 65 of covered members are eligible for medical benefits after the members' benefits terminate due to death or obtaining age 65.

Medical Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees paid $700.33 per month for pre-65 Medical coverage for 2013. If a retiree chooses to cover his spouse and/or eligible family an amount of $763.31 per month for pre-65 Medical coverage was paid in 2013.

Funding Policy

The funding policy is based upon the pay as you go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB.

ANNUAL OPEB COST AND NET OPEB OBLIGATION – NON-LEOFF

	Non-LEOFF		
	2011	2012	2013
Annual Required Contribution (ARC)			
Annual Normal Cost	$473,260	$469,157	$469,157
Amortization of UAAL	367,909	471,818	471,818
Interest	29,441	37,639	37,639
ARC at EOY	870,610	978,614	978,614
Interest on net OPEB Obligation	51,602	75,454	99,355
Adjustment to ARC	82,409	113,484	152,883
Annual OPEB Cost	839,803	940,584	925,086
Employer Contributions	427,796	343,042	380,818
Change in Net OPEB Obligation	412,007	597,542	544,268
Net Beginning OPEB Obligation	1,474,331	1,886,338	2,483,880
Net OPEB Obligation	$1,886,338	$2,483,880	$3,028,148

The City's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is shown in the following chart.

OPEB CONTRIBUTIONS – NON-LEOFF
(Amount Expressed in Thousands)

	Fiscal Year Ended	Annual OPEB Cost	Percent of OPEB Contributed	Net OPEB Obligation
Non-LEOFF	12/31/11	$839,803	50.9%	$1,886,338
	12/31/12	940,584	36.5%	2,483,880
	12/31/13	925,086	41.0%	3,028,148

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 4.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Medical trend assumptions range from 7.5% for 2013 dropping gradually to 6.2% in 2024 and beyond.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2008 was 30 years.

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0% funded. The accrued liability for benefits was $7.8 million, and the actuarial value of assets was $0, resulting in a UAAL of $7.8 million. A schedule of funding progress is provided as required supplementary information. This schedule provides information on the trend of funding ratio for the three most recent actuarial studies.

Actuarial valuations 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.

NOTE 12 – OTHER DISCLOSURES

RELATED PARTIES

The Yakcorps (632) fund was established in 2011 to account for the fiscal activity of the Yakima Consortium for Regional Public Safety (YAKCORPS). YAKCORPS consists of a variety of local agencies and governments. It was formed to operate and maintain a county-wide multi-discipline public safety system. An Interlocal Agreement provides for the structure, governance, operations and funding of the Consortium and its activities. Per the Agreement, the City of Yakima acts as fiscal agent for the Consortium.

SUBSEQUENT EVENTS

On May 19, 2014, the City of Yakima borrowed $13,140,000 for Limited Tax General Obligation Bonds. The proceeds will be used for certain street and road improvements in the City as set forth in the bond ordinance approved by City Council on May 6, 2014. The bonds bear interest of 3.0% to 5.0% and will be paid over the next 10 years out of General Fund.

CHANGE IN ACCOUNTING ENTITY

In 2013, the Recovery Grants Program Fund (199) was removed. This fund was used to account for the Cities American Recovery & Reinvestment Act (ARRA) grants that crossed individual fund lines. These grants were completed in 2012.

Effective February 12, 2013, the Joint Air Terminal Operations Agreement between Yakima County and the City of Yakima was terminated. Both parties agreed that it was in the public interest for a single entity to take over ownership and operations of the Airport. All real and personal property owned by the parties as tenants in common was conveyed to the City of Yakima in consideration of the City's assumption of joint obligations and liabilities. The Airport began operating as a department of the City of Yakima subsequent to the termination of the agreement. The final report for Airport operations as a joint venture was for the two months ending February 28, 2013, and the audited report is available at the State Auditors website. The City's financial statements include operating information for the 10 months beginning March 1, 2013 and ending December 31, 2013.

The 2012 balances on the Statement of Net Position were restated to include the beginning balance of the airport as of the February 28, 2013 acquisition by the City. Detail of the restatement follows:

RESTATEMENT OF NET POSITION

ASSETS	2012 as Reported	Yakima Air Terminal	2012 as Restated
Cash and Cash Equivalents	$16,418,864	733,588	17,152,452
Receivables (Net)	12,663,636	74,736	12,738,372
Due from Other Government Units	1,710,507	38,593	1,749,100
Capital Assets (net of Accumulated Depreciation)			
Land	16,404,518	3,418,797	19,823,315
Buildings	71,390,512	1,377,792	72,768,304
Improvements Other Than Buildings	79,392,337	6,413,982	85,806,319
Machinery & Equipment	35,140,903	179,595	35,320,498
Construction in Process	20,598,033	561,640	21,159,673
Intangibles	115,659	648,472	764,131
LIABILITIES			
Accounts Payable and Other Current Liabilities	$11,426,397	100,754	11,527,151
Accrued Liabilities	6,102,762	4,563	6,107,325
Due to Other Government Units	91,973	526	92,499
Due Within One Year	5,330,059	250,000	5,580,059
NET POSITION			
Invested in Capital Assets, Net of Related Debt	259,066,154	12,600,278	271,666,432
Restricted for Other Purposed	9,423,838	496,709	9,920,547
Total Net Position	296,826,834	13,096,987	309,923,821

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2013

POLICE PENSION

Fiscal Year Ending	Actual Employer Contributions Taxes	Medical Benefit Payments and Admin Expenses	Net Employer Contribution	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	$1,279,173	$723,381	$555,792	$546,180	101.8%
12/31/09	1,316,310	742,965	573,345	546,180	105.0%
12/31/10	1,368,431	783,984	584,447	546,180	107.0%
12/31/11	1,471,511	844,804	626,707	546,180	114.7%
12/31/12	1,264,681	629,237	635,444	550,743	115.4%
12/31/13	1,344,773	735,550	609,223	555,743	110.6%

POLICE OPEB

	Actual Employer Contributions Taxes	Medical Benefit Payments	Net Employer Contribution	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	$721,262	$721,262	$721,262	$1,298,388	55.6%
12/31/09	725,561	725,561	725,561	1,298,388	55.9%
12/31/10	779,481	779,481	779,481	1,298,388	60.0%
12/31/11	840,870	840,870	840,870	1,298,388	64.8%
12/31/12	609,766	609,766	609,766	1,623,168	37.6%
12/31/13	732,690	732,690	732,690	1,623,168	45.1%

FIRE PENSION

Fiscal Year Ending	Actual Employer Contributions Taxes & Fire Insurance Premiums	Medical Benefit Payments and Admin Expenses	Net Employer Contribution	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	$1,627,553	$732,318	$895,235	$563,583	158.8%
12/31/09	1,487,075	796,765	690,310	563,583	122.5%
12/31/10	1,575,935	825,933	750,002	563,583	133.1%
12/31/11	1,480,800	822,612	658,188	563,583	116.8%
12/31/12	1,381,576	595,880	785,696	525,501	149.5%
12/31/13	1,278,539	645,660	632,879	525,501	120.4%

FIRE OPEB

	Actual Employer Contributions Taxes	Medical Benefit Payments	Employer Contribution	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	$687,047	$687,047	$687,047	$1,365,282	50.3%
12/31/09	724,291	724,291	724,291	1,365,282	53.1%
12/31/10	785,124	785,124	785,124	1,365,282	57.5%
12/31/11	781,717	781,717	781,717	1,365,282	57.3%
12/31/12	566,185	566,185	566,185	1,695,966	33.4%
12/31/13	552,171	552,171	552,171	1,695,966	32.6%

NON-LEOFF OPEB

	Actual Employer Contributions Taxes	Medical Benefit Payments	Employer Contribution	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/08	$344,732	$344,732	$344,732	$870,610	39.6%
12/31/09	371,940	371,940	371,940	870,610	42.7%
12/31/10	391,940	391,940	391,940	870,610	45.0%
12/31/11	427,796	427,796	427,796	870,610	49.1%
12/31/12	343,042	343,042	343,042	978,614	35.1%
12/31/13	380,818	380,818	380,818	978,614	38.9%

SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS (OPEB) & PENSIONS

(Dollar Amounts in Thousands)
December 31, 2013

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Police OPEB	01/01/08	$0	$23,007	$23,007	0.0%	n/a	n/a
	01/01/12	0	25,615	25,615	0.0%	n/a	n/a
Fire OPEB	01/01/08	0	24,295	24,295	0.0%	n/a	n/a
	01/01/12	0	26,344	26,344	0.0%	n/a	n/a
Non-LEOFF OPEB	01/01/08	0	7,003	7,003	0.0%	n/a	n/a
	01/01/12	0	7,843	7,843	0.0%	n/a	n/a

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Fire Pension	01/01/03	$658	$8,520	$7,862	8.00%	0	0.00%
	01/01/08	646	9,935	9,289	7.00%	0	0.00%
	01/01/12	795	8,168	7,373	10.00%	0	0.00%
Police Pension	01/01/03	0	$8,154	$8,154	0.00%	0	0.00%
	01/01/08	0	9,002	9,002	0.00%	0	0.00%
	01/01/12	0	7,726	7,726	0.00%	0	0.00%

SCHEDULE 16
EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Grantor / Pass-Through Grantor Program Title	CFDA No.	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Note
U. S. Department of Agriculture					
Child & Adult Care Food Program	10.558	39141326	$ 7,561	$ -	-
Passed-through Washington Office of Superintendent of Public Instruction					
U. S. Department of Housing & Urban Development					
CFDA 14.218					
Community Development Block Grant	14.218	B 12-MC-53-0008	-	306,961	6
Community Development Block Grant	14.218	B 11-MC-53-0008	-	924,437	6
Community Development Block Grant	14.218	CDBG Program Income	-	93,579	3
Sub-Total CFDA 14.218			-	1,324,977	
CFDA 14.239					
Home Investment Partnerships Program	14.239	M12-MC53-0203	-	49,665	-
Home Investment Partnerships Program	14.239	M11-MC53-0203	-	167,232	-
Home Investment Partnerships Program	14.239	Home Program Income	-	276,022	3
Sub-Total CFDA 14.239			-	492,919	
Passed-through Washington State Dept of Commerce					
CDBG Neighborhood Stabilization Program	14.228	08-F6401-027	685	-	
Total Department of Housing and Urban Development			685	1,817,896	
U. S. Department of the Interior					
Passed-through Dept of Archeology & Historic Pres.	15.904	39141326	2,464	-	-
U. S. Department of Justice					
Gang Resistance & Intervention Program	16.548		6,000	-	-
Passed-through Yakima County					
CFDA 16.710					
Public Safety Partnership & Community Policing Grants	16.710	2010-CKWX0186	-	186,727	-
ARRA Public Safety Partnership & Community Policing	16.710	2009RKWX0902	-	283,702	7
Sub-Total CFDA 16.710			6,000	470,429	
CFDA 16.738					
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0195	-	63,203	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0341	-	29,018	6
Sub-Total CFDA 16.738			-	92,221	
Total U.S. Department of Justice			6,000	562,650	
U. S. Department of Transportation					
CFDA 20.106					
Federal Aviation Administration	20.106	AIP 32	-	72,576	-
Federal Aviation Administration	20.106	AIP 33	-	197,309	-
Federal Aviation Administration	20.106	AIP 34	-	374	-
Federal Aviation Administration	20.106	AIP 35	-	24,175	-
Federal Aviation Administration	20.106	AIP 36	-	1,440	-
Sub-Total CFDA 20.106			-	295,874	

SCHEDULE 16
EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013 Page 2 of 2

Grantor / Pass-Through Grantor Program Title	CFDA No.	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Note
Federal Transit - Formula Grant	20.507	WA-90X508-00	-	2,330,481	-
Job Access - Reverse Commute	20.516	GCA6232	5,207	-	-
CFDA 20.205 - Highway Planning & Construction					
Railroad Grade Separation	20.205	STPX-000S (062)	5,531,255	-	2
Fair Ave / Nob Hill	20.205	STPUS-4566 (007)	3,395	-	2
Yakima Valley Transportation	20.205	STPE-1485 (019)	810	-	2
Powerhouse/WOD Trail	20.205	STPE-1485 (023)	220,306	-	2
Citywide Safety	20.205		16,652	-	2
Lincoln Corridor Safety	20.205		8,722	-	2
64th Ave Roadway Widening	20.205	STPUS-4591 (002)	74,090	-	2
N. 1st St. Revitalization	20.205	STPUS-4579 (011)	18,036	-	2
Transit CMAQ Sunday Demo	20.205	WA-95-X076	157,645	-	2
Sub-Total CFDA 20.205			6,030,911	-	
Total U.S. Department of Transportation			6,036,118	2,626,355	
Environmental Protection Agency					
Passed-through Washington State Dept of Transportation					
Water Pollution Control Revolving Fund	66.458	LI200019	153,262	-	4b
Passed-through Washington State Dept of Commerce					
Safe Drinking Water State Revolving Fund	66.468	DM11-952-038	1,465,002	-	4c
			1,618,264	-	
U. S. Department of Health and Human Services					
CFDA 93.043 - Passed-through Yakima County					
Special Programs for the Aging / Disease Prevention	93.043	0969-54703	314	-	-
Special Programs for the Aging / Disease Prevention	93.043	0969-54703	29,523	-	-
Sub-Total CFDA 93.043			29,837	-	
Special Programs for the Aging / Grants for Sup Svcs	93.044	0969-54703	10,637	-	-
Total U.S. Department Health Passed-through			40,474	-	
Homeland Security					
Passed-through Yakima County - Emergency Management					
Homeland Security Grant	97.067		18,764	-	-
Total Pass-through and Direct Awards			$ 7,730,330	$ 5,006,901	
Total Federal Assistance Direct & Pass-Through Awards			$ 12,737,231		

SCHEDULE 16
NOTES TO THE SCHEDULE OF EXPENDITURES

For the Year Ended December 31, 2013

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Award is prepared on the same basis of accounting as the City of Yakima financial statements. The City of Yakima uses modified accrual system for all governmental funds: full accrual system for proprietary, nonexpendable and pension trust funds.

Note 2 - Program Costs

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

Note 3 - Program Income

The City of Yakima has a loan program for low income housing. Under this federal grant, repayments to the City of Yakima are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.

Note 4 - Federal Loans

a) In 2003, the City of Yakima was authorized to administer a Section 108 Loan program. There were no new loans in 2013. Since the City is only contingently liable, this amount is not included in the Schedule of Long-Term Debt. See Note 8 - Contingencies in the Basic Financial Statements section for details of the entire program.
b) The City of Yakima was approved by the EPA and the State Department of Ecology to receive a loan totaling $3,054,264 at 2.6% interest and a forgivable principal (grant) amount of $697,150 to fund capital improvement projects at the City's Wastewater Treatment Plant. The amount listed for this loan includes the proceeds used during the year.
c) The City of Yakima was approved by the EPA and the State Public Works Board to receive a loan to improve its drinking water system. Expenditures of $194,672 for 2012 were not reported on the 2012 SEFA and are therefore included in the total reported of $1,465,002 for 2013. Federal loan funds were not drawn by the City for this project until December 2013.

Note 5 - Noncash Awards

Not Applicable

Note 6 - Amount Paid to Subrecipients

The City of Yakima paid the following amounts to subrecipients:

CDBG-14.218	$75,000
JAG-16.738	$24,187

Note 7 - American Recovery and Reinvestment Act (ARRA)

Expenditures for this program were funded by ARRA.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

City of Yakima
Yakima County
January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Yakima.

Finding ref number: 2013-001	**Finding caption:** The City did not have adequate internal controls in place to ensure accurate reporting of the Schedule of Expenditures of Federal Awards.
Name, address, and telephone of auditee contact person: Tara Lewis, Financial Services Manager 129 N. 2nd Street Yakima, WA 98901 (509)575-6070	
Corrective action the auditee plans to take in response to the finding: *New controls will be implemented to review monies coming from the state to determine the original funding source at time of receipt.*	
Anticipated date to complete the corrective action: Immediately.	

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.

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