



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of University Place

Pierce County

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

Published June 27, 2016

Report No. 1016914





Washington State Auditor's Office

June 27, 2016

Council
City of University Place
University Place, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in dark ink, reading "Troy X. Kelley". The signature is fluid and cursive.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of University Place
Pierce County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of University Place
Pierce County
January 1, 2015 through December 31, 2015**

Council
City of University Place
University Place, 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 University Place, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 14, 2016

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

**City of University Place
Pierce County
January 1, 2015 through December 31, 2015**

Council
City of University Place
University Place, Washington

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

We have audited the compliance of the City of University Place, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Purpose of this Report

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 14, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of University Place Pierce County January 1, 2015 through December 31, 2015

Council
City of University Place
University Place, 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 University Place, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of University Place, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 24, budgetary comparison information on pages 61 through 62 and pension plan information on pages 63 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 14, 2016

FINANCIAL SECTION

**City of University Place
Pierce County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2015

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

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

Statement of Net Position – Proprietary Funds – 2015

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

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Information – 2015

Schedules of Proportionate Share of the Net Pension Liability – 2015

Schedule of Employer Contributions – 2015

Notes to Required Supplementary Information – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2015

City of University Place Management's Discussion and Analysis

The management of the City of University Place offers readers of its financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole. It is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial positions, and identify fund issues or concerns. Since the Management Discussion and Analysis (MD&A) is designed to focus on the report year's activities, resulting changes, and currently known facts. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the Letter of Transmittal in the introductory section and the Financial Statements that follow.

Financial Information

The City's government-wide financial statements have been prepared on the full-accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). The City's fund financial statements for governmental funds (General, Special Revenue, Debt Service, and Capital Projects) have been prepared on the modified accrual basis of accounting in conformity with GAAP. The City's proprietary funds (Internal Service) are accounted for on the accrual basis. A detailed discussion on government-wide and fund financial statements is provided later in this report.

Financial Highlights

Net Position - The assets of the City of University Place exceeded its liabilities at the close of the most recent fiscal year by \$67,538,905. Of this amount, \$13,702,560 may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Position – The City's total net position increased by \$6,365,860. The continued economic recovery has brought growth in construction and higher assessed property values, both of which result in an increase in revenues. The City also benefited from \$223,364 in additional admissions tax revenues and \$193,918 in sales tax revenue generated by the 2015 US Open golf tournament. Additionally, University Place has been the recipient of capital construction grants which have offset a significant amount of the cost of construction for various projects.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,047,437, an increase of \$2,287,053 in comparison with the prior year. Of this amount, \$6,253,110 is available for spending at the government's discretion (unassigned fund balance) and \$4,421,475 is restricted by legislation to specific purposes. The committed classification is established by Council ordinance for specific uses. There were no committed fund balances at the end of the 2015 fiscal year. Assigned classifications total \$3,372,850. Committed, assigned and unassigned monies have been designated by management to address budget amendments, equipment replacement, street improvements, facility repairs, and property acquisitions. These monies assist to minimize future debt and are intended to provide a cushion against significant downturns in revenue and to maintain sufficient working capital and cash flow to meet daily financial needs.

From the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, revenues, received primarily from property, sales, utility and general taxes, were used to support the major activities of the City government:

- General Government – Administration, Finance, Human Resources, City Clerk, Community Information and Outreach, and Court Services;
- Public Safety – Police, Jail, Crime Prevention, Emergency Operations and Animal Control;
- Economic Environment – Planning, Development Services, Code Enforcement, and Economic Development;
- Transportation – Public Works, Streets, and Surface Water Management;
- Physical Environment – Building Maintenance and Property Management

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of University Place basic financial statements. The statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements. The financial statement's focus is on both the City as a whole (government-wide) and on the major

individual funds. Both perspectives allow the user to address relevant questions, broaden a basis for annual comparisons or comparability with other governments, and enhances the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position presents information on all of the City of University Place assets and liabilities, and deferred inflows/outflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of University Place is improving or deteriorating. The focus of the Statement of Net Position is designed to be similar to a bottom line for the City and its governmental and business-type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). This is intended to summarize and simplify the user's analysis of costs of various governmental services and/or subsidy to various business-type activities. The Governmental Activities reflects the City of University Place's basic functions: General Government; Public Safety; Physical Environment; Transportation; Economic Environment; and Culture and Recreation. Property, sales, and utility taxes finance the majority of these functions.

The government-wide financial statements include not only the City of University Place itself (known as the primary government), but also legally separate Local Revitalization Financing (LRF) and University Place Transportation Benefit District (UPTBD) blended component units. Financial information for these component units is reported as part of the financial information presented for the primary government itself. Additional information about the LRF and UPTBD component units can be found in the Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of University Place, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds. The focus is on Major Funds, rather than types. A Major Fund is defined in the following manner:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds); and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual government fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined; or
- Any other governmental or enterprise fund the government's officials believe is particularly important to financial statement users.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of government. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with 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 City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Funds are established for various purposes and the Fund Financial Statement allows for the demonstration of sources and uses

and/or budgeting compliance associated therewith. These statements begin in the required supplemental information section. The maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Works Capital Improvement Fund, LRF Fund and Debt Service Fund. All of these funds are considered to be major funds. Data from the other non-major governmental funds are combined into a single aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements in the other supplementary information described below.

The City of University Place adopts a biennial appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds maintained by the City include an enterprise fund and three internal service funds. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City of University Place uses an enterprise fund to account for its Storm Water Management. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment, information and technology systems, and risk management activities. Because these services benefit governmental functions they have been included within governmental activities in the government-wide financial statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

Required Supplementary Information includes financial information and disclosures that are required by the Governmental Accounting Standards Board (GASB) but are not considered a part of the basic financial statements. Budgetary comparison schedules for certain major governmental funds are presented immediately following the notes to the basic financial statements.

Other Supplementary Information includes the combining statements for the non-major capital projects funds and budgetary comparison schedules for non-major capital projects funds and sub funds. These are presented immediately following the required supplementary information.

Government-wide Financial Analysis

The City has prepared the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The City's Proprietary Funds include all Internal Service Funds and an Enterprise Fund which are included in the governmental activities and business-type activities for the entity-wide statements. The following table reflects a Summary of Net Position for the fiscal year 2015 with comparative totals for 2014.

Table 1
Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 15,718,606	\$ 14,002,595	\$ 4,935,469	\$ 4,972,444	\$ 20,654,075	\$ 18,975,039
Capital assets	102,528,864	100,005,400	-	-	102,528,864	100,005,400
Deferred outflows of resources	356,015	-	51,131	-	407,146	-
Total assets and deferred outflows of resources	<u>118,603,485</u>	<u>114,007,995</u>	<u>4,986,600</u>	<u>4,972,444</u>	<u>123,590,085</u>	<u>118,980,439</u>
Liabilities						
Other liabilities	1,704,830	2,154,701	18,120	27,702	1,722,950	2,182,403
Non-current liabilities	53,015,885	51,716,184	797,402	458,030	53,813,287	52,174,214
Deferred inflows of resources	450,275	-	64,668	-	514,943	-
Total liabilities and deferred inflows of resources	<u>55,170,990</u>	<u>53,870,885</u>	<u>880,190</u>	<u>485,732</u>	<u>56,051,180</u>	<u>54,356,617</u>
Net position						
Net investment in capital assets	53,836,345	50,158,131	-	-	53,836,345	50,158,131
Restricted for						
Debt service	-	875,636	-	411,283	-	1,286,919
Local revitalization area construction	1,570,408	892,390	-	-	1,570,408	892,390
Surface and storm water management	-	-	4,106,410	4,075,429	4,106,410	4,075,429
Capital facilities plan financing	960,329	515,614	-	-	960,329	515,614
Traffic impact-roadway improvements	554,482	1,210,993	-	-	554,482	1,210,993
Parks capital improvement	712,394	449,292	-	-	712,394	449,292
Other	-	264,068	-	-	-	264,068
Unrestricted	5,798,537	5,770,986	-	-	5,798,537	5,770,986
Total net position	<u>\$ 63,432,495</u>	<u>\$ 60,137,110</u>	<u>\$ 4,106,410</u>	<u>\$ 4,486,712</u>	<u>\$ 67,538,905</u>	<u>\$ 64,623,822</u>

There are five basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

- Net Result of Activities – which will impact (increase/decrease) current assets and unrestricted net position.
- Borrowing for Capital – which will increase current assets and long-term debt.
- Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase capital assets. There is a second impact, which is an increase in related net debt that will not change the net investment in capital assets.
- Principal Payment on Debt – which will reduce current assets and reduce long-term debt, and will reduce unrestricted net position and increase net investment in capital assets.
- Reduction of Capital Assets through Depreciation – which will reduce capital assets and net investment in capital assets.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of University Place, assets and deferred outflows exceeded liabilities and deferred inflows by \$67,538,905 at the close of the most recent fiscal year.

By far the largest portion of the City of University Place net position (79.71 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City investment in its 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.

The remaining balance of \$13,702,560 may be used to meet the City's ongoing obligations to citizens and creditors.

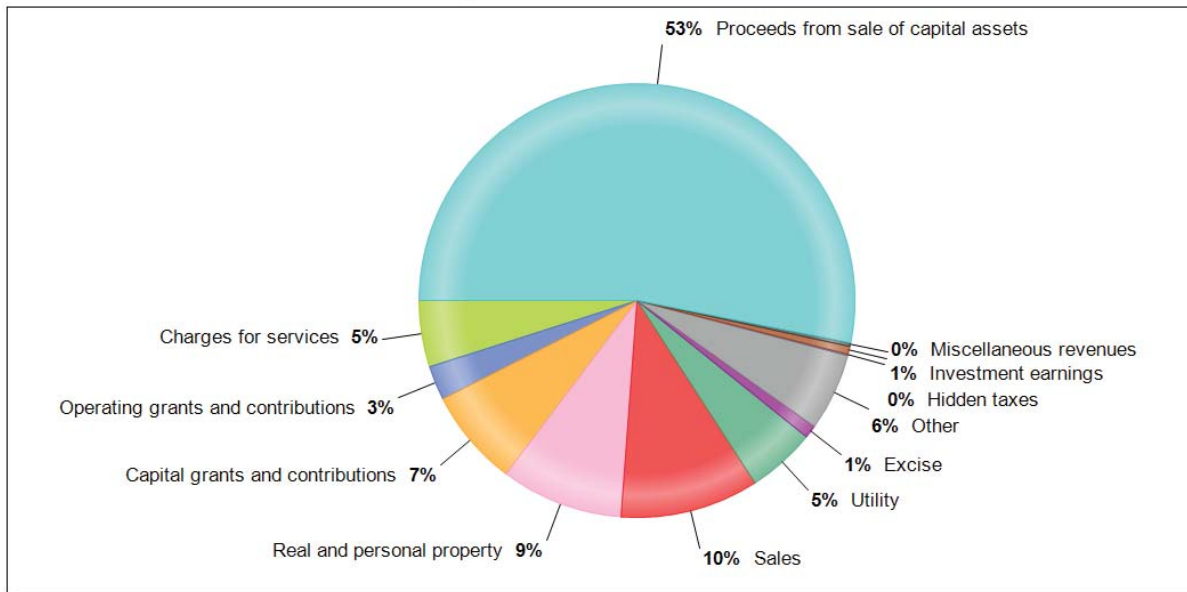
As previously reported, City of University Place net position increased by \$6,365,860.

City revenues are tracking as forecasted and the City is meeting, and will continue to meet, all operational and debt obligations according to the adopted budget. In December of 2014 Standard & Poor's Ratings Services raised its long-term rating on the City of University Place's outstanding general obligation (GO) bonds to AA-/ Outlook Stable from A+/Outlook Stable.

Table 2
Changes in Net Position

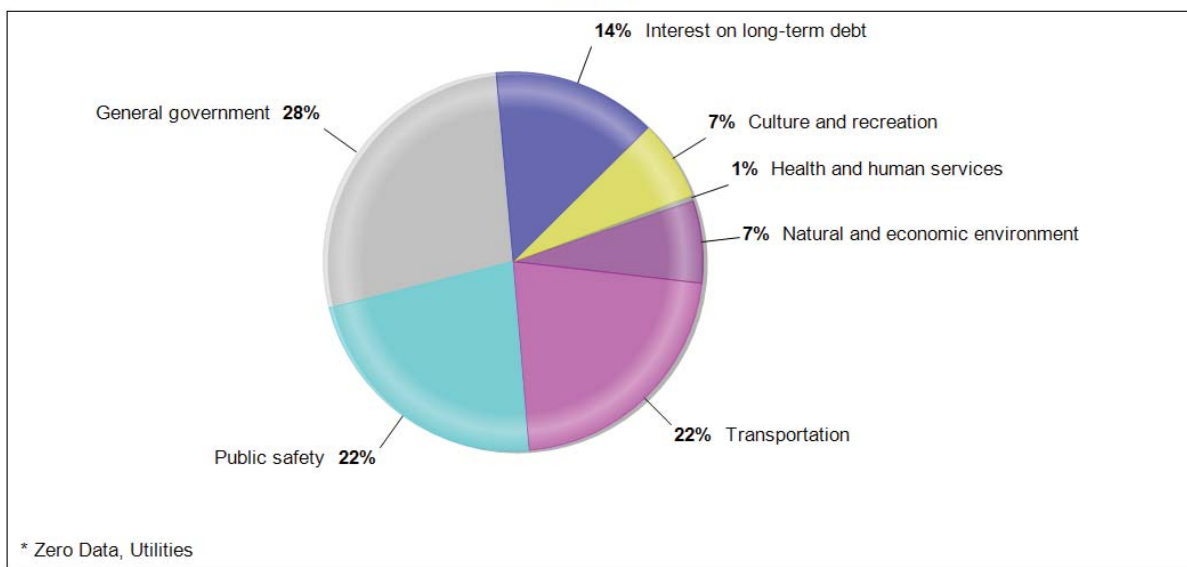
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 2,253,746	\$ 5,156,443	2,770,459	2,747,343	\$ 5,024,205	\$ 7,903,786
Operating grants and contributions	1,188,004	316,874	11,133	23,510	1,199,137	340,384
Capital grants and contributions	3,308,256	3,559,535	-	-	3,308,256	3,559,535
General revenue						
Taxes						
Real and personal property	4,125,973	4,063,189	-	-	4,125,973	4,063,189
Sales	4,661,338	4,123,518	-	-	4,661,338	4,123,518
Utility	2,323,109	1,287,561	-	-	2,323,109	1,287,561
Excise	428,404	2,357,963	-	-	428,404	2,357,963
Other	2,616,995	1,624,610	-	-	2,616,995	1,624,610
Investment earnings	42,489	27,445	-	-	42,489	27,445
Licenses and permits	2,881,674	-	-	-	2,881,674	-
Fines and penalties	23,519	-	-	-	23,519	-
Miscellaneous revenues	253,239	100,615	-	-	253,239	100,615
Proceeds from sale of capital assets	135,529	122,791	-	-	135,529	122,791
Total general revenue	<u>24,242,275</u>	<u>22,740,544</u>	<u>2,781,592</u>	<u>2,770,853</u>	<u>27,023,867</u>	<u>25,511,397</u>
Expenses						
General government	5,341,577	4,823,886	-	-	5,341,577	4,823,886
Public safety	4,313,235	3,772,857	-	-	4,313,235	3,772,857
Utilities	-	229	-	-	-	229
Transportation	4,185,572	4,475,924	-	-	4,185,572	4,475,924
Natural and economic environment	1,359,236	19,861	-	-	1,359,236	19,861
Health and human services	104,130	1,577,764	-	-	104,130	1,577,764
Culture and recreation	1,304,953	1,162,238	-	-	1,304,953	1,162,238
Interest on long-term debt	2,694,094	2,566,304	-	-	2,694,094	2,566,304
Water	-	-	1,355,210	1,497,100	1,355,210	1,497,100
Total expenses	<u>19,302,797</u>	<u>18,399,063</u>	<u>1,355,210</u>	<u>1,497,100</u>	<u>20,658,007</u>	<u>19,896,163</u>
Excess (deficiency) before contributions, special items, and transfers	<u>4,939,478</u>	<u>4,341,481</u>	<u>1,426,382</u>	<u>1,273,753</u>	<u>6,365,860</u>	<u>5,615,234</u>
Transfers	1,367,936	669,985	(1,367,936)	(669,985)	-	-
Insurance recoveries	27,768	-	-	-	-	-
Special item - sale of land	-	(2,736,739)	-	-	-	-
Change in net position	6,335,182	2,274,727	58,446	603,768	6,365,860	5,615,234
Beginning net position	60,137,110	57,862,383	4,486,712	3,882,944	64,623,822	61,745,327
Prior period adjustments & change in accounting principle						
Change in accounting principal GASB 68	(226,878)	-	(438,748)	-	(665,626)	-
Change in accounting principle GASB 68	(2,828,098)	-	-	-	(2,828,098)	-
Prior period adjustment	20,493	-	-	-	20,493	-
Prior Period Adjustments	(5,314)	-	-	-	(5,314)	-
Total Prior period adjustments & change in accounting principle	<u>(3,039,797)</u>	<u>-</u>	<u>(438,748)</u>	<u>-</u>	<u>(3,478,545)</u>	<u>-</u>
Beginning net position restated	<u>57,097,313</u>	<u>57,862,383</u>	<u>4,047,964</u>	<u>3,882,944</u>	<u>61,145,277</u>	<u>61,745,327</u>
End of net position	<u>\$63,432,495</u>	<u>\$60,137,110</u>	<u>\$ 4,106,410</u>	<u>\$ 4,486,712</u>	<u>\$67,511,137</u>	<u>\$67,360,561</u>

Revenues by Source Governmental Activities



Governmental Expenditures by Function

In Millions



Financial Analysis of the City's Funds

Governmental funds. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of University Place's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balances of governmental funds are classified according to five specifically defined categories. In order from most restrictive to least restrictive, these categories are Nonspendable, Restricted, Committed, Assigned and Unassigned. The classifications reflect the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. At the end of the fiscal year, the City of University Place governmental funds reported combined ending fund balances of \$14,047,435. This represents an increase of \$2,220,516 from 2014. This increase was due primarily to an increase in taxes and license and permit revenues.

The General Fund is the chief operating fund of the City. At the end of 2015, the fund balance of the general fund was \$8,494,225, an increase of \$1,843,316 from 2014. This change in fund balance is the result, primarily of increased tax, license and permit revenues.

The General Fund had a significant increase in taxes of \$785,643 over the adopted budget due to an increase in sales tax collected from construction projects during the revitalization of the town center district as well as US Open related construction.

The decrease of \$218,111 in the LRF fund balance from 2014 is due to principle and interest debt payments of \$397,913 and transfers of \$345,136 to reimburse the Public Works Capital Improvement Fund for LRF related capital project expenditures.

Proprietary funds. As previously noted, the City's proprietary funds are comprised of three internal service funds and one enterprise fund. The increase in the Surface Water Management (SWM) Fund balance is due primarily to fees collected that exceeded expenditures.

Budgetary Information

While the City utilizes a two-year or biennial budget, each fiscal year is considered on its own merits for financial purposes. The 2015 budget is the first year of the current biennial budget cycle.

During 2015 the City anticipated sale of one of the town center properties which has been delayed until 2016 causing a variance between actual and final budget of proceeds from sale of assets of \$1,013,235 also effecting transfers out by the off setting amount due to the funds not being available.

Capital Asset and Debt Administration

Capital assets. The City of University Place investment in capital assets for its governmental activities as of December 31, 2015 amounts to \$260,922,457 (net of accumulated depreciation), which is an increase of \$160,916,912 from 2014. This investment in capital assets includes land, buildings, machinery, equipment and software, infrastructure and construction in progress. The following table summarizes capital assets for the current fiscal year and a comparison with fiscal year 2014.

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	2015 Total Governmental Activities	2014 Total Governmental Activities
Land	\$ 26,789,357	\$ 26,789,357
Easement	1,976,875	1,702,904
Buildings & improvements	37,895,158	30,404,529
Equipment	3,418,798	815,217
Infrastructure	182,525,926	30,711,638
Construction in progress	8,316,343	9,581,900
Total	<u>\$ 260,922,457</u>	<u>\$ 100,005,545</u>

Additional information on the City's capital assets can be found in Note IV of the Notes to the Financial Statements.

Long-term debt. At the end of the fiscal year, the City of University Place had total long-term debt outstanding of \$50,473,998 which includes revenue bonds with an outstanding principal balance of \$5,345,000. The City has three types of outstanding debt: general obligation bonds, public works trust fund loans, and compensated absences. The outstanding revenue bonds are related to the State Local Revitalization Financing projects for which a separate Authority was established. The City has no liability for these bonds. Bond holders look solely to the finances of the Authority for repayment. Further information regarding the Authority is disclosed in the Notes to the Financial Statements.

The following table summarizes long-term debt for the current fiscal year and a comparison with fiscal year 2014.

Table 4
Outstanding Debt at Year-End

	2015	2014
Governmental		
General obligation bonds	\$ 43,355,000	\$ 44,645,000
Revenue bonds payable	5,345,000	5,495,000
Public works trust fund loan	964,334	1,155,599
Compensated absences	431,615	420,587
Total	<u>\$ 50,095,949</u>	<u>\$ 51,716,186</u>
Business-type Activities		
Public works trust fund loan	\$ 330,077	\$ 411,283
Compensated absences	47,972	46,747
Total	<u>\$ 378,049</u>	<u>\$ 458,030</u>

Washington State law provides a maximum debt limit for general obligations. A city may incur debt equal to 1.5% of the City's assessed value without a vote of the people and debt for general government equal to 2.5% of the assessed value with a vote of the people. An additional 2.5% of assessed value may be incurred to finance water, sewer, and parks projects, also with a vote of the people. Based on the assessed value of property in University Place, the City's outstanding debt, subject to the State of Washington constitutional limits, was below capacity on December 31, 2015 and the City may issue non-voted debt at this time.

Note IV of the Basic Financial Statements identifies the City's long-term debt and provides additional detail regarding the City's outstanding debt.

Economic Factors and the Next Year's Budgets and Rates

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. Local governments (cities, counties, school districts) primarily rely on property and a limited array of other taxes (sales, utility, admission, and business and occupation) and fees (franchise, licenses, development services, etc.) for their governmental activities. There are a limited number of state-shared revenues (i.e., gas taxes, liquor excise taxes, liquor profits taxes, etc.) and recurring and non-recurring grants from both the state and federal government.

For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or charge associated therewith.

The level of taxes, fees and charges for services (including development related mitigation fees) will have a bearing on the specific City's competitive ability to encourage retail, office, residential, and industrial development to locate in their jurisdiction. The City places significant emphasis on encouraging economic development.

In November 2015 City Council approved a measure to eliminate the City's recreation program beginning in 2017. This will save the City's General Fund approximately \$400,000 a year.

City Council took action in 2015 to make reductions in the Police/Public Safety Fund by eliminating two positions to create a sustainable Public Safety budget.

Requests for Information

This financial report is designed to provide a general overview of the City of University Place's financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of University Place Finance Department, 3715 Bridgeport Way West, Suite B-1, University Place, WA 98466, telephone 253-566-5656, or visit the City's website at www.cityofup.com.

City of University Place
Statement of Net Position
As of December 31, 2015

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Assets			
Cash and cash equivalents	\$ 13,141,736	\$ 4,948,404	\$ 18,090,140
Receivables - net	609,814	-	609,814
Internal balances	95,506	(95,506)	-
Long-term receivables	720,000	-	720,000
Due from other governments	1,151,550	82,571	1,234,121
Capital assets			
Capital assets, not being depreciated	37,082,575	-	37,082,575
Capital assets, being depreciated	65,446,289	-	65,446,289
Total capital assets	102,528,864	-	102,528,864
Total assets	118,247,470	4,935,469	123,182,939
Deferred outflows of resources			
Deferred outflows for employer contributions	356,015	51,131	407,146
Total deferred outflows of resources	356,015	51,131	407,146
Liabilities			
Current liabilities			
Accounts payable	424,888	7,262	432,150
Accrued payroll and employee benefits	53,861	10,355	64,216
Interest payable	227,932	505	228,437
Retainage payable	65,695	-	65,695
Unearned revenue	923,462	-	923,462
Other current liabilities	8,992	-	8,992
Non-current liabilities			
Due in less than 1 year	1,620,109	97,218	1,717,327
Due in more than 1 year	48,475,840	280,831	48,756,671
Net pension liability	2,919,936	419,353	3,339,289
Total liabilities	54,720,715	815,524	55,536,239
Deferred inflows of resources			
Deferred inflows for employer contributions	450,275	64,668	514,943
Total deferred inflows of resources	450,275	64,668	514,943
Total liabilities	55,170,990	880,192	56,051,182
Net position			
Net investment in capital assets	53,836,345	-	53,836,345
Restricted for			
Local revitalization area construction	1,570,408	-	1,570,408
Surface and storm water management	-	4,106,408	4,106,408
Capital facilities plan financing	960,329	-	960,329
Traffic impact-roadway improvements	554,482	-	554,482
Parks capital improvement	712,394	-	712,394
Unrestricted	5,798,537	-	5,798,537
Total net position	\$ 63,432,495	\$ 4,106,408	\$ 67,538,903

The accompanying notes are an integral part of these financial statements.

City of University Place
Statement of Activities
For the Year Ended December 31, 2015

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Function/Programs							
Primary Government:							
Governmental activities:							
General government	\$ 5,341,577	\$ 486,337	\$ -	\$ 25,000	\$ (4,830,240)	\$ -	\$ (4,830,240)
Public safety	4,313,235	79,377	287,738	-	(3,946,120)	-	(3,946,120)
Utilities	-	432,920	-	-	432,920	-	432,920
Transportation	4,185,572	265,791	-	3,283,256	(636,525)	-	(636,525)
Natural and economic environment	1,359,236	619,785	5,333	-	(734,118)	-	(734,118)
Health and human services	104,130	-	894,933	-	790,803	-	790,803
Culture and recreation	1,304,953	369,536	-	-	(935,417)	-	(935,417)
Interest on long-term debt	2,694,094	-	-	-	(2,694,094)	-	(2,694,094)
Total governmental activities	19,302,797	2,253,746	1,188,004	3,308,256	(12,552,791)	-	(12,552,791)
Business-type activities:							
Water management	1,355,212	2,770,459	11,133	-	-	1,426,380	1,426,380
Total business-type activities	1,355,212	2,770,459	11,133	-	-	1,426,380	1,426,380
Total primary government	\$ 20,658,009	\$ 5,024,205	\$ 1,199,137	\$ 3,308,256	\$ (12,552,791)	\$ 1,426,380	\$ (11,126,411)
General Revenues:							
Taxes							
Real and personal property					\$ 4,125,973	\$ -	\$ 4,125,973
Sales					4,661,338	-	4,661,338
Utility					2,323,109	-	2,323,109
Excise					428,404	-	428,404
Other					2,616,995	-	2,616,995
Licenses and permits					2,881,674	-	2,881,674
Fines and penalties					23,519	-	23,519
Miscellaneous revenues					253,239	-	253,239
Investment earnings					42,489	-	42,489
Proceeds from sale of capital assets					135,529	-	135,529
Total general revenues					17,492,269	-	17,492,269
Transfers					1,367,936	(1,367,936)	-
Insurance recoveries					27,768	-	27,768
Change in net position					6,335,182	58,444	6,393,626
Net position, beginning of year					60,137,110	4,486,712	64,623,822
Change in Accounting principle GASB 68					(3,054,976)	(438,748)	(3,493,724)
Prior period adjustments					15,179	-	15,179
Net position, beginning of year restated					57,097,313	4,047,964	61,145,277
Net position, end of year					\$ 63,432,495	\$ 4,106,408	\$ 67,538,903

The accompanying notes are an integral part of these financial statements.

City of University Place
Balance Sheet
Governmental Funds
December 31, 2015

	General Funds	Public Works CIP	Debt Service	LRF	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and equivalents	\$ 8,052,316	\$ 663,256	\$ -	\$ 1,572,523	\$ 2,812,439	\$ 13,100,534
Accounts receivables	511,068	2,515	-	-	96,230	609,813
Due from other government units	388,563	646,999	-	-	115,987	1,151,549
Total assets	<u>\$ 8,951,947</u>	<u>\$ 1,312,770</u>	<u>\$ -</u>	<u>\$ 1,572,523</u>	<u>\$ 3,024,656</u>	<u>\$ 14,861,896</u>
Liabilities, deferred inflows and fund balance						
Liabilities						
Accounts payable	\$ 176,419	\$ 163,901	\$ -	\$ 2,115	\$ 77,819	\$ 420,254
Accrued salaries and wages	41,767	2,625	-	-	6,407	50,799
Accrued liabilities	1,587	-	-	-	-	1,587
Retainage payable	65,695	-	-	-	-	65,695
Unearned revenue	106,995	14,509	-	-	89,363	210,867
Total liabilities	<u>392,463</u>	<u>181,035</u>	<u>-</u>	<u>2,115</u>	<u>173,589</u>	<u>749,202</u>
Deferred inflows of resources						
Unavailable revenue-property taxes	65,259	-	-	-	-	65,259
Total deferred inflows of resources	<u>65,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,259</u>
Fund balances						
Restricted						
Local revitalization area construction projects	-	-	-	1,570,408	-	1,570,408
Arterial street maintenance	-	-	-	-	16,519	16,519
Capital facilities plan financing	-	-	-	-	960,329	960,329
Traffic impact-roadway improvements	-	-	-	-	778,332	778,332
Transportation improvement projects	-	-	-	-	392,213	392,213
Donations	-	-	-	-	34,180	34,180
Parks capital improvement	-	-	-	-	669,494	669,494
Assigned						
Unanticipated emergency	856,934	-	-	-	-	856,934
Public works capital improvement	-	1,131,735	-	-	-	1,131,735
Public safety	1,384,181	-	-	-	-	1,384,181
Unassigned						
Unassigned	6,253,110	-	-	-	-	6,253,110
Total fund balances	<u>8,494,225</u>	<u>1,131,735</u>	<u>-</u>	<u>1,570,408</u>	<u>2,851,067</u>	<u>14,047,435</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 8,951,947</u>	<u>\$ 1,312,770</u>	<u>\$ -</u>	<u>\$ 1,572,523</u>	<u>\$ 3,024,656</u>	<u>\$ 14,861,896</u>

The accompanying notes are an integral part of these financial statements.

City of University Place
Reconciliation of Governmental Fund Balances
To Net Position of Governmental Activities
December 31, 2015

Total fund balances - governmental funds \$ 14,047,435

The total net position reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. (See Note IV.C)

Capital assets, not being depreciated	37,082,575	
Capital assets being depreciated	223,839,882	
Accumulated depreciation	<u>158,393,593</u>	
		102,528,864
Deferred inflows of resources are not reported in the governmental funds:		
Related to pension	(450,275)	
Related to pension for ISF	<u>-</u>	(450,275)

Internal service fund costs of certain activities, such as insurance, technology services and fleet operations to individual governmental funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the Statement of Net Position		675,220
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Deferred outflows of resources are not reported in the governmental funds:		
Deferred outflows for employer contributions		356,015
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Internal balances	95,506	
Long-term receivables	720,000	-
		815,506

Long-term liabilities and related accrued interest are not due and payable in the current and therefore are not reported in the governmental funds:

Debt and notes payable		
General obligation bonds	(43,355,000)	
Revenue bonds payable	(5,345,000)	
Public works trust fund loan	(964,334)	
Compensated absences	(431,615)	
Unearned revenue	(923,462)	
Interest payable	(227,932)	
Adjustment	(307,772)	
Net pension liability	<u>(2,919,936)</u>	-
	-	(54,475,051)
Deferred inflows reported in the funds are considered financial resources for governmental activities		
Unavailable revenue-property taxes	(65,259)	(65,259)

Net Position of Governmental Activities \$ 63,432,455

The accompanying notes are an integral part of these financial statements.

City of University Place
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	General Funds	Public Works CIP	Debt Service	LRF	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 10,948,525	\$ -	\$ -	\$ 522,937	\$ 2,305,503	\$ 13,776,965
Licenses and permits	2,881,674	-	-	-	-	2,881,674
Intergovernmental	597,797	4,171,188	-	-	-	4,768,985
Charges for services	1,198,362	-	-	-	501,932	1,700,294
Miscellaneous						
Fines and forfeitures	19,701	-	-	-	-	19,701
Rental, concessions and sales	94,233	-	-	-	320	94,553
Investment earnings	42,489	-	1	-	-	42,490
Contribution in aid for constructions	-	-	-	-	25,000	25,000
Contributions	14,055	-	-	-	20,691	34,746
Other revenues	7,106	88,671	-	-	28,163	123,940
Federal grants	10,414	-	-	-	-	10,414
State grants and entitlements	-	-	-	-	5,333	5,333
Total revenues	<u>15,814,356</u>	<u>4,259,859</u>	<u>1</u>	<u>522,937</u>	<u>2,886,942</u>	<u>23,484,095</u>
Expenditures						
Current						
General government	3,237,225	21,794	-	-	41,829	3,300,848
Public safety	3,923,198	-	-	-	-	3,923,198
Transportation	390,207	503,341	-	-	1,253,552	2,147,100
Natural and economic environment	1,251,028	108,480	-	-	307	1,359,815
Culture and recreation	996,154	-	-	-	22,039	1,018,193
Health and human services	93,348	-	-	-	-	93,348
Capital outlay	-	6,138,495	-	-	174,001	6,312,496
Debt service						
Principal retirement	-	-	1,481,239	150,000	-	1,631,239
Interest	-	-	2,296,182	247,913	-	2,544,095
Total expenditures	<u>9,891,160</u>	<u>6,772,110</u>	<u>3,777,421</u>	<u>397,913</u>	<u>1,491,728</u>	<u>22,330,332</u>
Excess (deficiency) of revenues over expenditures	<u>5,923,196</u>	<u>(2,512,251)</u>	<u>(3,777,420)</u>	<u>125,024</u>	<u>1,395,214</u>	<u>1,153,763</u>
Other financing sources/uses						
Transfers in	7,309	2,675,969	3,777,419	2,001	556,684	7,019,382
Transfers out	(4,120,159)	-	-	(345,136)	(1,568,565)	(6,033,860)
Insurance recovery	-	-	-	-	27,768	27,768
Proceeds from sale of assets	120,000	-	-	-	-	120,000
Total other financing sources/uses	<u>(3,992,850)</u>	<u>2,675,969</u>	<u>3,777,419</u>	<u>(343,135)</u>	<u>(984,113)</u>	<u>1,133,290</u>
Net change in fund balances	<u>1,930,346</u>	<u>163,718</u>	<u>(1)</u>	<u>(218,111)</u>	<u>411,101</u>	<u>2,287,053</u>
Fund balances, beginning of year	6,650,909	968,017	1	1,768,026	2,439,966	11,826,919
Prior period adjustments	<u>(87,030)</u>	<u>-</u>	<u>-</u>	<u>20,493</u>	<u>-</u>	<u>(66,537)</u>
Fund balances, beginning of year restated	6,563,879	968,017	1	1,788,519	2,439,966	11,760,382
Fund balances, end of year	<u>\$ 8,494,225</u>	<u>\$ 1,131,735</u>	<u>\$ -</u>	<u>\$ 1,570,408</u>	<u>\$ 2,851,067</u>	<u>\$ 14,047,435</u>

The accompanying notes are an integral part of these financial statements.

City of University Place
Reconciliation of The Statement of Revenue, Expenditures,
And Changes In Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2015

Net changes in fund balances - total governmental funds \$ 2,287,053

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. Amounts related to capital assets are:

Capital asset purchases capitalized	6,312,496	
Depreciation expense	(3,808,597)	
Pension expense adjustment	(24,330)	
Proceeds from sale of capital assets	(15,529)	
Internal service fund adjustments for look back for governmental funds	7,913	
Expenses not recorded on fund statements recorded on government funds	27,414	
Internal service look back adjustment to zero out enterprise funds	<u>9,857</u>	-
		2,509,224

Expenses for compensated absences 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.

9,353

The issuance of long-term debt 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 has any effect on net position. This is the amount of the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on debt service costs	1,631,239	
Interest expense	<u>(146,557)</u>	-
	-	1,484,682

Deferred inflows reported in the funds are considered financial resources for governmental activities.

(20,341)

Internal service funds are used by management to charge the costs of insurance and information services to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

Change in net position after adjustments for enterprise funds		<u>65,211</u>
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Change in net position of governmental activities		<u><u>\$ 6,335,182</u></u>
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The accompanying notes are an integral part of these financial statements.

City of University Place
Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-Type Activities - Enterprise		
	Funds		
	Major Fund		Gov. Activities
	Surface Water	Total	Internal Service
	Mgmt		Funds
Assets			
Current assets			
Cash and equivalents	\$ 4,948,404	\$ 4,948,404	\$ 41,202
Due from other government units	82,571	82,571	-
Total current assets	5,030,975	5,030,975	41,202
Noncurrent assets			
Capital assets			
Depreciable assets	-	-	1,804,685
Less: accumulated depreciation	-	-	(973,581)
Total noncurrent assets	-	-	831,104
Total assets	\$ 5,030,975	\$ 5,030,975	\$ 872,306
Deferred outflows of resources			
Deferred outflows for pension contributions	51,131	51,131	19,263
Total deferred outflows of resources	51,131	51,131	19,263
Liabilities			
Current liabilities			
Accounts payable	7,080	7,080	4,634
Accrued salaries and wages	10,355	10,355	3,062
Accrued liabilities	182	182	-
Accrued interest payable	505	505	-
Compensated absences	15,990	15,990	-
Current-bonds, notes, and loans payable	81,228	81,228	-
Total current liabilities	115,340	115,340	7,696
Noncurrent Liabilities			
Compensated absences	31,982	31,982	26,298
Bonds, notes, and loans payable	248,849	248,849	-
Net pension liability	419,353	419,353	157,991
Total noncurrent liabilities	700,184	700,184	184,289
Total liabilities	815,524	815,524	191,985
Deferred inflows of resources			
Deferred inflows for employer contributions	64,668	64,668	24,364
Total deferred inflows of resources	64,668	64,668	24,364
Net position			
Invested in capital assets	-	-	675,220
Restricted net position	330,077	330,077	-
Unrestricted net position	3,871,837	3,871,837	-
Total net position	\$ 4,201,914	4,201,914	\$ 675,220

Reconciliation to government-wide statement of net position:

Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time.

	(95,506)
Net position of business-type activities	<u>\$ 4,106,408</u>

The accompanying notes are an integral part of these financial statements.

City of University Place
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
December 31, 2015

	Business-Type Activities - Enterprise Funds		
	Major Fund		
	Surface Water Mgmt	Total	Gov. Activities Internal Service Funds
Operating Revenues:			
Charges for services	\$ 2,770,459	\$ 2,770,459	\$ 618,664
Intergovernmental	-	-	(99)
Total operating revenues	<u>2,770,459</u>	<u>2,770,459</u>	<u>618,565</u>
Operating Expenses:			
Salaries and employee benefits	679,001	679,001	240,188
Materials and supplies	57,530	57,530	110,698
Services and charges	607,321	607,321	297,669
Insurance claims and expenses	18,533	18,533	122,499
Depreciation and amortization	-	-	155,067
Total operating expenses	<u>1,362,385</u>	<u>1,362,385</u>	<u>926,121</u>
Operating income (loss)	<u>1,408,074</u>	<u>1,408,074</u>	<u>(307,556)</u>
Nonoperating revenue (expenses):			
Interest	(3,443)	(3,443)	-
Insurance recovery	-	-	15,529
State grants and entitlements	11,133	11,133	-
Total nonoperating revenue (expenses)	<u>7,690</u>	<u>7,690</u>	<u>15,529</u>
Income (loss) before transfers	1,415,764	1,415,764	(292,027)
Transfers in	-	-	382,415
Transfers out	<u>(1,367,936)</u>	<u>(1,367,936)</u>	<u>-</u>
Change in net position	47,828	47,828	90,388
Net position, beginning of year	4,592,834		772,662
Change in accounting principle GASB 68	(438,748)	-	(165,297)
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(22,532)</u>
Net position, beginning of year restated	4,154,086	-	584,833
Net position, end of year	<u>\$ 4,201,914</u>	<u>\$ -</u>	<u>\$ 675,221</u>

Reconciliation to government-wide statement of net position:

Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds.

10,616

Change in net assets of business-type activities \$ 58,444

The accompanying notes are an integral part of these financial statements.

City of University Place
Statement of Cash Flows
Proprietary Funds
December 31, 2015

	Business-Type Activities - Enterprise Funds		
	Major Fund		Gov. Activities
	Surface Water Mgmt	Total	Internal Service Funds
Cash flows from operating activities:			
Cash receipts from customers	\$ 2,770,460	\$ 2,770,460	\$ 618,663
Cash paid to employees for services	(478,336)	(478,336)	(176,886)
Cash paid to suppliers for goods and services	(673,703)	(673,703)	(421,593)
Cash paid for employee benefits	(205,949)	(205,949)	(58,834)
Cash paid for Insurance	(18,533)	(18,533)	(122,499)
Net cash provided (used) by operating activities	1,393,939	1,393,939	(161,149)
Cash flows from noncapital financing activities:			
Cash receipts from grants and contributions	34,587	34,587	-
Cash receipts from transfers from other funds	(1,367,936)	(1,367,936)	382,415
Net cash provided (used) by noncapital financing activities	(1,333,349)	(1,333,349)	382,415
Cash flows from capital and related financing activities:			
Proceeds/(loss) from retirement of assets	-	-	15,529
Payments for capital acquisition	-	-	(236,978)
Debt principal payments	(81,206)	(81,206)	-
Interest paid on debt	(3,521)	(3,521)	-
Net cash (used) by capital and related financing activities	(84,727)	(84,727)	(221,449)
Net increase (decrease) in cash and cash equivalents	(24,137)	(24,137)	(183)
Cash and cash equivalents, beginning of year	4,972,541	4,972,541	41,385
Cash and cash equivalents, end of year	4,948,404	4,948,404	41,202
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating Income (Loss)	1,408,074	1,408,074	(307,556)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	-	155,067
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	(8,850)	(8,850)	(13,130)
Increase (decrease) in accrued salaries and wages	-	-	326
Increase (decrease) in accrued liabilities	(652)	(652)	-
Increase (decrease) in compensated absences	1,225	1,225	6,349
Increase (decrease) in deferred Inflows/outflows	13,537	13,537	5,101
Increase (decrease) in net pension liability	(19,395)	(19,395)	(7,306)
Net cash provided by operating activities	\$ 1,393,939	\$ 1,393,939	\$ (161,149)

The accompanying notes are an integral part of these financial statements.

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of University Place, Pierce County, Washington was incorporated on August 31, 1995 and operates under the laws of the State of Washington applicable to an Optional Municipal Code City (RCW 35A) with a Council-Manager form of government. As required by the generally accepted accounting principles the financial statements present The City of University Place, the primary government, and its component units. The component units discussed below are included in the City of University Place reporting entity because of the significance of its operational or financial relationship with the City.

Local Revitalization Financing (LRF) has been presented in the Financial Statements as a blended component unit. The LRF Fund is governed by the seven-member board appointed by the City Council. Although it is legally separated from the City, the Local Revitalization Financing is reported as if it were part of the primary government because its sole purpose is to finance and construct City infrastructure.

The University Place Transportation Benefit District (UPTBD) has been presented in the Financial Statements as a blended component unit. The current members of the City Council are the governing board of the UPTBD. Although it is legally separated from the City, the University Place Transportation Benefit District is reported as if it were part of the primary government because its sole purpose is to finance street maintenance.

B. Implementation of New Accounting Statements

For year 2015, the City has implemented the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board.

Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. GASB 68 establishes standards for pension accounting and financial reporting for governments ("employers") which sponsor pension benefits. Under GASB 68, the employer must report the net pension liability, pension expense and related deferred inflows and outflows of resources associated with providing retirement benefits to their employees (and former employees) in their basic financial statements. In addition, extensive note disclosures and related Required Supplementary Information are also required.

Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. GASB Statement 71 addresses paragraph 137 in GASB 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities. The requirements of the Statement apply to all state and local governments that are required to apply the provisions of Statement 68 for defined benefit pensions.

The City's pension plan, Washington State Department of Retirement Systems, did not provide member governments with beginning balances of deferred inflows or outflows of resources, which is permitted by GASB Statement 68. At the beginning of the initial period of GASB 68, the City removed the net pension obligation balance determined in accordance with Statement 27, as amended, from beginning net position and recorded the beginning net pension liability. Per the requirements of Statement 71, the City recorded a beginning deferred outflow of resources for contributions made between the start of the measurement period of the pension system and the City's prior fiscal year-end. These two items result in an adjustment to beginning net position of the governmental activities and the business activities in the Government-Wide Financial Statements and the Statement of Revenues Expenses and Changes in Fund Net Position— Proprietary Funds. Retroactively applying these changes results in the adjustment below:

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

B. Implementation of New Accounting Statements

	Government Wide Statement of Activities		Proprietary Statement of Revenues, Expenses, and Changes in Net Position	Internal Service Statement of Revenues, Expenses, and Changes in Net Position
	Governmental Activities	Business Activities	Surface Water Management	Information Technologies and Services
Net position as of 1/1/15	\$ 60,137,110	\$ 4,486,712	\$ 4,592,834	\$ 146,904
Change in reporting for net pension liability	(3,039,068)	(438,642)	(438,748)	(165,297)
Net position as restated for GASB 68 1/1/15	<u>\$ 57,098,042</u>	<u>\$ 4,048,070</u>	<u>\$ 4,154,086</u>	<u>\$ (18,393)</u>

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity and activity of the internal service funds 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. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements.

The accounts of the City are organized on the basis of funds. Each fund is a separate accounting entity with a self-balancing set of accounts. The City's resources are allocated to and accounted for in individual funds according to the purpose for which they are spent and how they are controlled. There are two categories of funds – governmental and proprietary. A description of the fund categories is provided below.

The City reports the following major governmental funds:

General Fund

The City of University Place's General (or current expense) Fund accounts for all current financial resources not required by law or administrative action to be accounted for in another fund. It is the largest accounting entity in the City and provides for most of the general government operations. The major revenue sources to the fund are general tax revenues. Licenses and permits, charges for services, and investment interest also provide support.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for and the payment of principal and interest for Council-approved general obligation bonds, letters of credit, and Public Works Trust Fund loans. The City of University Place pledges its full faith and credit for payment of these obligations.

Public Works Capital Improvement Fund

The Public Works Capital Improvement Fund was established to account for receipts and disbursements related to the acquisition, design, construction, and any other related street, traffic, or surface water management project expenditures. Revenues supporting this fund's activities include bond proceeds, grant proceeds, interfund transfers and other revenue sources as may be authorized by the City Council.

LRF Fund

This fund was established to account for receipt and disbursement transactions associated with local revitalization financing. The City established, by ordinance, a separate Authority which is authorized to undertake a "local revitalization financing" by using revenues received from a local option sales and use tax imposed pursuant to RCW 82.14.510 to pay the principal of and interest on revenue bonds issued to finance "public improvements" within a local revitalization area. The City has no liability for the bonds. Bond holders look solely to the finances of the Authority for repayment. This fund is presented in the City's financial statements as a blended component unit.

Details on the State's Local Revitalization Financing program may be found online at www.dor.w.gov/Content/DoingBusiness/LocalRevitalizationFinancing.aspx.

The City reports the following major enterprise fund:

Surface Water Management Fund

The Surface Water Management Fund was established to administer and account for all receipts and expenditures related to the City's surface and storm water management system. Activities that are primarily supported by user fees include administration, billings and collections, engineering, construction, operation, maintenance, and repairs.

The City reports the following non-major governmental funds:

Capital Project Funds

These funds are used to account for financial resources to be used for the capital maintenance or construction of City parks and other facilities.

Special Revenue Funds

These funds account for revenues derived from specific taxes or other earmarked revenue sources, including state gas tax and state revenue sharing entitlements, which are legally restricted to expenditures for specified purposes.

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

The City reports the following three proprietary funds on a consolidated basis.

Internal Service Funds

These funds (Fleet and Equipment, Information Technology and Services, and Risk Management) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis.

As a general rule the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

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

Proprietary funds 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 a proprietary fund's principal ongoing operations. Internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Fleet and Equipment Fund is an internal service fund which accounts for the costs of maintaining and replacing the majority of the City's vehicles and auxiliary equipment. All equipment costs, including depreciation, are factors in calculating the rates that are charged to each user department.

The Information Technology and Services Fund is an internal service fund which accounts for all costs associated with data processing, telecommunications, cable, postal operations, copier and duplication services, and the Geographical Information System (GIS). This fund owns and depreciates all non-proprietary fund assets related to these functions, and charges users for both maintenance and operation costs and equipment replacement charges based on depreciation schedules.

The Risk Management Fund is an internal service fund which accounts for the City's risk financing activities established to minimize the adverse effects of losses associated with property and casualty, medical and dental, unemployment, and worker's compensation claims. Both risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is a member of Washington Cities Insurance Authority (WCIA), which offers a combination of self-insurance, or standard insurance to cover liability and property risks. The City is currently only self-insuring State Unemployment Compensation.

The Strategic Reserve Fund was established by Ordinance 179 to set aside financial resources for mitigating adverse situations caused by severe short-term revenue shortfalls, expenditures resulting from emergencies, or as otherwise designated by the City Council. The fund is financed by transferring unassigned fund balance in the General Fund at the end of each calendar year or by other appropriation, as deemed appropriate by the City Council. This fund is a recourse of last resort and shall be used only when no other reasonable financial management alternative exists.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting refers to the recognition of revenues and expenditures or expenses in the accounts and reporting them in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting.

The **accrual** basis of accounting recognizes revenues when they are earned and expenses are recorded when incurred. All assets and liabilities are recorded in the fund.

The **modified accrual** basis of accounting recognizes revenues and other financial resources when they become susceptible to accrual, i.e. when the related funds become both measurable and available to finance expenditures of the current period. “Measurable” means the amount of the transaction can be determined. To be considered “available”, revenue typically must be collected within sixty days after year-end.

Expenditures are recorded when the fund liability is incurred, except for principal and interest on general long-term debt, and vacation and sick pay which are recorded when paid.

The effect of interfund activity has been eliminated from the government-wide financial statements so that expenses are not reported twice. Amounts reported on the government-wide statements as program revenues include charges to customers or applicants for goods, operating grants and contributions, and capital grants and contributions. General revenues include all taxes. Major revenues recorded on the modified accrual basis are:

Property Taxes – Pierce County acts as the City’s collection agent for these taxes. Once a month, the County electronically transmits to the City the taxes that it has collected on the City’s behalf in the prior month. On this basis, property taxes received in January are considered both measurable and available and therefore are recognized as revenue in the current year.

Other Locally Levied Taxes – Pierce County also acts as the City’s collection agent for the one quarter percent and optional one quarter percent real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by Pierce County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and therefore are accrued as revenue at year-end. The State of Washington acts as the City’s collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. It is both measurable and available and is therefore accrued as revenue at year-end.

Grant Revenues – Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned, and therefore available, at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

Shared Revenues – Revenues that have been collected but not remitted by an intermediary collection agency to the City are considered measurable and available.

Other Revenue Sources – Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year-end; operating transfers, interfund, and intergovernmental service billings related to services provided in the current year which are outstanding at year-end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices. Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are not generally measurable until received.

E. Budgetary Information

Biennial appropriated budgets are adopted for the general and some special revenue funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Other budgets are adopted at the level of the fund.

Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

The individual funds within each fund type, which are included in the City’s biennial operating budget, are listed below. These funds are budgeted for on a biennial basis.

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

General Fund

Special Revenue Funds:

Street Fund
Arterial Street Fund
Real Estate Excise Tax Fund
Transportation Benefit District
Local Revitalization Financing Fund
Paths and Trails Fund
Donations Fund

Capital Projects Funds:

Parks Capital Projects Fund

Managerial Funds:

Strategic Reserve Fund
Parks and Recreation Fund
Development Services Fund
Police/Public Safety
Traffic Impact Fees Fund

Enterprise Funds:

Surface Water Management Fund

Debt Service Funds:

Debt Service Fund

Procedures for Adopting the Budget

The City's budget process and the time limits under which the budget must be prepared are defined by the Revised Code of Washington (RCW) 35A.34. The procedures followed in establishing the biennial budget are described below:

- ◇ By late May, the official budget call is made by the Finance Director for current level service budgets and a preliminary financial forecast.
- ◇ By late July, departments submit their preliminary expenditure estimates and the Finance Department updates the preliminary revenue estimates to define resources available to finance coming year expenditure programs.
- ◇ Prior to the first Tuesday in October, the City Manager submits the proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by the City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.
- ◇ By October 1, the City Manager files a preliminary budget with the City Clerk. Copies of the preliminary budget are provided to staff and the City Council and are made available to the public.
- ◇ During the first two weeks of October, the City Clerk publishes a notice of the filing of the preliminary budget and notices of public hearings to be held during preliminary budget deliberations.
- ◇ City Council conducts workshops and two public hearings on the proposed budget between October and December. Final hearing on the budget must begin on or before the first Monday of December, and may continue until the 25th day prior to the beginning of the next fiscal year.
- ◇ In early December, the City Council adopts an ordinance to establish the amount of property taxes to be levied in the coming year.
- ◇ By December 31, the City Council makes its adjustments to the proposed budget and adopts a final budget by ordinance.
- ◇ The final operating budget, as adopted, is published and distributed within the first three months of the following year. Copies of the adopted budget are made available to the public.
- ◇ By September 1 after the start nor later than December 31 of the first year of the fiscal biennium, the City provides for a mid-biennium review including the preparation of proposed budget modifications and provides for publication of notice of public hearings.

Amending the Budget

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

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

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 ordinance approved by a simple majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

The budget for the donations fund is established only at the end of the fiscal year. Therefore, there is no original budget in the Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual in page 79.

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

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2015, the City was holding \$18,090,140 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is held in the General Fund.

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

2. Investments

Investments are valued at fair market value. The fair value of the City's position in the state investment pool is the same as the value of the pool shares. See Note IV, Deposits and Investments.

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note No. V. A.) Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

4. Amounts Due to and From Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. A separate schedule of interfund loans receivable and payable is furnished in Note IV. F. Interfund Balances and Transfers.

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

5. Capital Assets (See Note IV C. Capital Assets)

Capital assets, which include property, plant, equipment and software, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost and an estimated useful life. Capitalization thresholds and estimated useful lives of capital assets are as follows:

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

	Capitalization Threshold	Estimated Useful Life
Buildings and improvements	\$ 15,000.00	10-100 Years
Equipment and software	5,000.00	4-12 Years
Roads - collectors and residential	15,000.00	7-40 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs 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. There was no interest incurred by the City during the current fiscal year.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over their estimated useful lives.

Net investment in capital assets reported on the Statement of Net Position is calculated by subtracting outstanding debt (less unspent revenue bond proceeds of \$959,791) from capital assets.

6. Asset Impairments and Insurance Recoveries

The City has recorded insurance recoveries related to the impairment of capital assets as Program Revenue at the government-wide level, as Other Financing Sources in the Governmental Funds and as Other Nonoperation Revenues in the Enterprise Funds. For the year ended December 31, 2015, the City received \$27,768 in insurance recoveries

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave and sick leave. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements.

There is no maximum on the vacation balance an employee may carry. However, the maximum vacation balance that an employee may cash out at termination is 240 hours. Vacation pay is payable to the maximum upon resignation, retirement or the death of an employee.

A non-exempt employee may request compensatory time in lieu of overtime payment. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked, accruable to a maximum of 80 hours.

Sick leave accumulation is unlimited. Effective January 1, 2005 any employee in good standing with at least five (5) years of regular employment with the City may cash out up to 40 hours of sick leave per year for 50% of its value at the employee's current hourly wage if their remaining sick balance is over 100 hours. As of January 1, 2007 employees in good standing with seven (7) or more years of regular employment with the City may cash out up to 80 hours for 75% of its value at their current hourly wage as long as their sick leave balance remains over 100 hours. Other sick leave is only payable upon resignation, retirement or the death of an employee. An employee who has been with the City for at least two years may receive twenty-five percent of accumulated sick leave up to a maximum balance of 960 hours.

In accordance with GASB Statement 16, the City accrues vacation pay and no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as termination leave prior to resignation. This provides for the termination pay for eligible employees vacation and twenty-five percent of their sick leave to a maximum of 960 hours accrued.

The entire compensated absence liability is reported on the government-wide financial statements as it meets the criteria identified in the 2005 GAAFR. In the proprietary funds, the amount of compensated absences related to internal service funds is reported as a liability.

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

8. Unearned Revenues

Unearned revenues consist of amounts collected before revenue recognition criteria are met. Unearned revenue of \$210,867 was reported in the 2015 Governmental Funds Balance Sheet. Of this amount, \$720,000 is the remaining sales contract amount for 15,000 square feet of space within the Civic Building of which the Pierce County Library will take ownership upon payment in full in seven years. The City received \$47,019 in unearned revenue in 2015 for registrations to participate in Recreation programs scheduled for 2016, \$770 for facility rentals, \$75 for permits, \$2,017 was received in 2015 for pet licenses due in 2016 and Traffic Impact Fees totaled \$83,068. Deposits in the amount of \$77,918 also remained at the end of 2015.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and or Balance Sheet will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The deferred outflows of resources are reported in the government-wide statement of net position for governmental and business activities and the fund level for the proprietary statement of net position. The City has two items that qualify for reporting in this category. First, the City's pension plan contributions made from the measurement date of the pension plan to the current fiscal year end are deferred and will be recognized in the subsequent fiscal year. Second, the difference between projected and actual earnings on pension plan investments are deferred and recognized as pension plan expense over a closed five-year period as required by GASB 68. In addition to liabilities, the Statement of Net Position and or Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City has two items that qualify for reporting in this category. At the governmental fund level, revenues that have been billed but not yet collected are reported as unavailable revenues. These amounts are deferred and recognized as an inflow of resources in the period they become available to the City. A deferred inflow of resources is recognized in the government-wide statement of net position for governmental and business activities and the fund level for the proprietary statement of net position for the difference between the expected experience and the actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The amount is deferred and amortized over a period of years determined by the plan actuary. The amortization period is based on the estimated average remaining service lives of employees that are provided with a pension through the pension plan (active and inactive employees) for the City determined as of the beginning of the measurement date.

10. Accrued Liabilities and Noncurrent Liabilities

All payables, accrued liabilities, and noncurrent liabilities are reported in the government-wide financial statements and on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities once incurred are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

11. Fund Balance

The City of University Place implemented Governmental Accounting Standards Board Statement No. 54. For governmental fund financial statements fund balances are reported in five classifications.

- a. Non-spendable: Fund balance amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact. The City has no non-spendable fund balances at this time.
- b. Restricted: Fund balance amounts that are constrained for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.
- c. Committed: Fund balance amounts that are constrained for specific purposes which are internally imposed by the City Council through an ordinance which must be approved by the affirmative vote of a majority of the City Council in a public meeting. Such an ordinance can only be repealed or amended by the affirmative vote of a majority of the City Council in a public meeting.

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

- d. Assigned: Fund balance amounts that are constrained by the City Council's intent to be used for specific purposes, but are neither restricted nor committed. This category of fund balance represents amounts the City Council has authorized the City Manager to assign, through resolution or through the ordinance adopting the City's budget, to be used for a specific purpose. Once assigned, the limitation imposed by the ordinance or resolution remain in place until a similar action is taken (the adoption of an ordinance or passing of a resolution) to remove or revise the limitation.
- e. Unassigned: Fund balance amounts that represent residual positive fund balance within the General Fund that has not been classified as restricted, committed, or assigned, and negative fund balances in other governmental funds.

The City considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. When expenditures of unrestricted fund balance are incurred, the City considers committed amounts spent first, then assigned amounts, and lastly unassigned amounts.

A minimum fund balance has been established through Resolution 702 Section 3: The City shall attempt to maintain a cash reserve of five to fifteen percent (5%-15%) of its operating budget.

G. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance- total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Certain liabilities, such as bonds payable and accrued expenses, are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position."

The details of this difference are as follows:

	2015
General obligation bonds	\$ 43,355,000
Revenue bonds payable	5,345,000
Public works trust fund loan	964,334
Compensated absences	431,615
Subtotal debt	<u>50,095,949</u>
Interest payable	<u>(227,932)</u>
Total	<u>\$ 49,868,017</u>

One element of the reconciliation explains that internal service funds are used to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are not reported in this fund financial statement but they are reported in the statement of net position. This difference is \$675,220.

**CITY OF UNIVERSITY PLACE
NOTES TO THE FINANCIAL STATEMENTS**

Internal service funds net position \$ 675,220
Add debt reported above:

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

During 2015, there have been no material violations of finance-related legal or contractual provisions.

NOTE IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As required by state law, all deposits and investments of the City's funds are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC).

Investments

On December 31, 2015, the City had the following investments:

Investment	<u>Fair Value</u>
State Investment Pool	\$ 15,392,256
Federal Home Loan Bank	\$ 999,630

The LGIP is an un-rated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

The State's Local Government Investment Pool is managed by the Washington State Treasurer's Office. The LGIP is not SEC registered but has oversight provided by the following sources: 1) annually audited by the Office of the State Auditor; 2) annually audited by an outside, independent auditor; 3) an Advisory Committee meets quarterly to advise the State Treasurer on issues regarding the LGIP; 4) monthly statement enclosures detailing portfolio breakdown and earnings information sent to participants; and, 5) quarterly newsletters that include a compliance report and quarterly financials. The fair value of the City's position in the pool is the same as the value of the pool shares. Financial reports are available at the State Treasurer's Office, P.O. Box 40200, Olympia, Washington, 98504-2000. The City's Investment Policy allows for investment in the State's Local Government Investment Pool.

The Federal Nation Mortgage Assoc. investment was rated Aaa by Moody's and AA+ by Standard and Poors.

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

B. Receivables and Due from Other Governments

The following is an analysis of the accounts receivable and amounts due from other governments for 2015:

Accounts receivable	
Property tax	\$ 65,259
Utility company taxes and ROW use fees	433,692
Gambling and admissions taxes	7,529
TIF Deferral	83,068
Miscellaneous receivables	20,265
Total	<u>\$ 609,813</u>
Due from other governments	
Due from other governments	\$ 575,714
Grants receivable	658,408
Total	<u>\$ 1,234,122</u>

C. Capital Assets

Capital assets are tangible or intangible assets having initial useful lives extending beyond a single reporting period. The City has included intangible assets for a number of years and is in compliance with GASB 51. Capital assets activity for governmental activities for the year ended December 31, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 26,789,357	\$ -	\$ -	\$ 26,789,357
Easement	1,702,904	273,971	-	1,976,875
Construction in progress	9,581,900	5,927,263	(7,192,819)	8,316,344
Total capital assets, not being depreciated	<u>38,074,161</u>	<u>6,201,234</u>	<u>(7,192,819)</u>	<u>37,082,576</u>
Capital Assets, Being Depreciated				
Buildings	\$ 37,895,158	-	-	37,895,158
Infrastructure	175,333,107	7,192,819	-	182,525,926
Equipment and Software	3,234,658	237,118	(52,979)	3,418,797
Total capital assets, being depreciated	<u>216,462,923</u>	<u>7,429,937</u>	<u>(52,979)</u>	<u>223,839,881</u>
Less Accumulated Depreciated for				
Buildings	\$ (7,490,629)	(1,284,796)	-	(8,775,425)
Infrastructure	(144,621,469)	(2,453,307)	-	(147,074,776)
Equipment and Software	(2,419,583)	(176,788)	52,979	(2,543,392)
Total accumulated depreciation being depreciated	<u>(154,531,681)</u>	<u>(3,914,891)</u>	<u>52,979</u>	<u>(158,393,593)</u>
Total capital assets, being depreciated, net	<u>61,931,242</u>	<u>3,515,046</u>	<u>-</u>	<u>65,446,288</u>
Governmental activities capital assets, net	<u>\$ 100,005,403</u>	<u>\$ 9,716,280</u>	<u>\$ (7,192,819)</u>	<u>\$ 102,528,864</u>

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

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

Functions/Programs:	
General government	\$ 1,191,363
Transportation	2,502,080
Health and Human Services	10,782
Cultural and Recreation	259,439
Total depreciation expense	<u>\$ 3,963,664</u>

D. Long-Term Debt

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs.

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Proceeds are used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues since no additional property taxes can be levied to support related debt service payments. Although General Obligation Bonds may be issued to support proprietary fund activity, the City has issued these bonds for general government purposes only.

The 2005 bonds were issued for the purpose of refinancing of bonds issued in 1996 and 1997. Those bonds were issued for various purposes including the purchase of Windmill Village/City Hall, Windmill Village remodel, Grandview Avenue CIP, arterial lighting CIP and park land acquisition.

The 2007 Series A bonds were issued to make street improvements and sewer improvements, construct a portion of a transit center garage and construct other public capital projects related to the Town Center project. The Series B bonds were issued to repay the bond anticipation note in the principle amount of \$12.3 million that was used to finance the acquisition of property within the Town Center of the City. The Series C were issued to finance certain road projects, including: Bridgeport 3A, neighborhood capital improvement projects, 19th Street retrofit, Alameda bike and pedestrian path, 40th Street bike and pedestrian path and Civic Building Design and other capital projects of the City. The Series D bonds were issued to finance a portion of a garage in the Town Center area of the City.

The 2009 Series A bonds were issued to finance a portion of the costs of completing the core and shell of a civic building, including the library. Proceeds of the 2009 Series B bonds were used to pay a portion of the costs of completing the Civic Building and to pay taxable lines of credit entered into in connection with the Town Square project.

The 2012 Series A and Series B bonds were issued to refinance the 2007 Series B (\$12,445,000) and the remaining principal on the 2001 LTGO (\$1,685,000). The 2001 LTGO bonds were issued for the purpose of park and recreation improvements at the Cirque and Bridgeport Park site.

General Obligation Bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2015 the City had no voter-approved bonds outstanding.

Local Revitalization Revenue Bonds were issued in 2011 in the amount of \$5,885,000. The City established, by ordinance, a separate Authority which is authorized to undertake a "local revitalization financing" by using revenues received from a local sales and use tax imposed pursuant to RCW 82.14.510 to pay the principal of and interest on revenue bonds issued to finance "public improvements" within a local revitalization area. The City has no liability for the bonds. Bond holders look solely to the finances of the Authority for repayment.

State of Washington Public Works Trust Fund Loans (PWTF) are a direct responsibility of the City. University Place currently has five such loans. The first PWTF loan with a balance of \$201,827 was used for Grandview Drive West improvements. The second PWTF loan with a balance of \$178,939 was used for Sunset Drive West improvements. The third PWTF loan with a balance of \$257,370 was used for Bridgeport Way West improvements between 40th Street West and Cirque Drive West. The fourth PWTF loan with a balance of \$200,522 was used for improvements on Bridgeport Way and the Streetscape in the Town Center Project. The fifth PWTF loan with a balance of \$455,754 was used for improvements on Cirque Drive West. All loan agreements provide for interest at 1% or 2% per annum on the outstanding loan balance. After the first loan repayment, subsequent repayments are due June 30th of each year and will consist of 1/19th of the outstanding principal plus interest on the unpaid balance of the loan. The terms of the loans will not exceed twenty years.

CITY OF UNIVERSITY PLACE

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt activity for the year ended December 31, 2015 follows:

Description	Date of Issue	Maturity Date	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount to be Redeemed	Ending Outstanding Debt
Governmental Activity							
General obligation bonds							
2007 refunding	11-Apr-05	1-Dec-17	\$ 5,670,000	\$ 1,640,000	\$ -	\$ 600,000	\$ 1,040,000
2007 Series A	25-Jul-07	1-Dec-29	3,575,000	3,575,000	-	-	3,575,000
2007 Series C	1-Dec-07	1-Dec-27	3,065,000	3,065,000	-	185,000	2,880,000
2007 Series D	1-Dec-07	1-Dec-15	1,015,000	350,000	-	350,000	-
2009 Series A	24-Aug-09	1-Dec-25	14,685,000	14,685,000	-	-	14,685,000
2009 Series B	24-Aug-09	1-Dec-34	7,760,000	7,760,000	-	-	7,760,000
2012 Series A	20-Nov-12	1-Dec-37	6,250,000	5,970,000	-	155,000	5,815,000
2012 Series B (taxable)	20-Nov-12	1-Dec-37	7,880,000	7,600,000	-	-	7,600,000
Subtotal			<u>49,900,000</u>	<u>44,645,000</u>	<u>-</u>	<u>1,290,000</u>	<u>43,355,000</u>
Revenue bond							
2011 local option sales	11-Jul-11	1-Oct-37	5,885,000	5,495,000	-	150,000	5,345,000
Subtotal			<u>5,885,000</u>	<u>5,495,000</u>	<u>-</u>	<u>150,000</u>	<u>5,345,000</u>
Other debt							
Public works trust fund loans							
PW-97-791-033	1-Jul-98	1-Jul-17	1,240,991	199,623	-	66,540	133,083
PW-00-691-059	1-Jul-01	1-Jul-20	345,508	109,100	-	18,183	90,917
PW-00-691-060	1-Jul-01	1-Jul-20	665,280	214,029	-	35,672	178,357
PW-00-691-058	1-Jul-02	1-Jul-20	495,132	175,740	-	29,290	146,450
PW-05-691-PRE-145	1-Jul-06	1-Jul-25	766,983	457,080	-	41,553	415,527
Subtotal			<u>3,513,894</u>	<u>1,155,572</u>	<u>-</u>	<u>191,238</u>	<u>964,334</u>
Total governmental activity general obligation bonds & other debt			<u>\$ 59,298,894</u>	<u>\$ 51,295,572</u>	<u>\$ -</u>	<u>\$ 1,631,238</u>	<u>\$ 49,664,334</u>

Business-type Activity

Other debt							
Public works trust fund loans							
PW-97-791-033	1-Jul-98	1-Jul-17	641,009	103,106	-	34,369	68,737
PW-00-691-059	1-Jul-01	1-Jul-20	334,492	105,628	-	17,606	88,022
PW-00-691-060	1-Jul-01	1-Jul-20	294,720	94,813	-	15,802	79,011
PW-00-691-058	1-Jul-02	1-Jul-20	136,012	48,272	-	8,045	40,227
PW-05-691-PRE-145	1-Jul-06	1-Jul-25	99,762	59,479	-	5,407	54,072
Subtotal			<u>1,505,995</u>	<u>411,298</u>	<u>-</u>	<u>81,229</u>	<u>330,069</u>
Total business-type activity other-debt			<u>\$ 1,505,995</u>	<u>\$ 411,298</u>	<u>\$ -</u>	<u>\$ 81,229</u>	<u>\$ 330,069</u>

CITY OF UNIVERSITY PLACE
NOTES TO THE FINANCIAL STATEMENTS

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

General Obligation Bonds

Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	1,130,000	2,231,168	3,361,168	-	-	-
2017	1,165,000	2,191,783	3,356,783	-	-	-
2018	1,215,000	2,145,638	3,360,638	-	-	-
2019	1,270,000	2,089,060	3,359,060	-	-	-
2020	1,330,000	2,029,099	3,359,099	-	-	-
2021-2025	7,810,000	8,992,739	16,802,739	-	-	-
2026-2030	10,125,000	6,636,640	16,761,640	-	-	-
2031-2035	13,055,000	3,746,145	16,801,145	-	-	-
2036-2037	6,255,000	473,227	6,728,227	-	-	-
Total	<u>\$ 43,355,000</u>	<u>\$ 30,535,499</u>	<u>\$ 73,890,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Public Works Trust Fund Loans

Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 191,239	\$ 7,566	\$ 198,805	\$ 81,230	\$ 3,030	\$ 84,260
2017	191,239	5,861	197,100	81,230	2,245	83,475
2018	124,697	4,156	128,853	46,861	1,460	48,321
2019	124,697	3,117	127,814	46,861	1,018	47,879
2020	124,697	2,078	126,775	46,861	577	47,438
2020-2025	207,764	3,116	210,880	27,036	406	27,442
Total	<u>\$ 964,333</u>	<u>\$ 25,894</u>	<u>\$ 990,227</u>	<u>\$ 330,079</u>	<u>\$ 8,736</u>	<u>\$ 338,815</u>

LFR Revenue Bond

Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 155,000	\$ 241,413	\$ 396,413	\$ -	\$ -	\$ -
2017	160,000	236,763	396,763	-	-	-
2018	165,000	231,963	396,963	-	-	-
2019	170,000	227,013	397,013	-	-	-
2020	175,000	221,488	396,488	-	-	-
2021-2025	985,000	997,390	1,982,390	-	-	-
2026-2030	1,235,000	752,327	1,987,327	-	-	-
2031-2035	1,560,000	425,788	1,985,788	-	-	-
2036-2037	740,000	56,000	796,000	-	-	-
Total	<u>\$ 5,345,000</u>	<u>\$ 3,390,145</u>	<u>\$ 8,735,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF UNIVERSITY PLACE
NOTES TO THE FINANCIAL STATEMENTS

E. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year	Due in More than One Year
Governmental Activities						
Bonds and Loans Payable						
General obligation bonds	\$ 44,645,000	\$ -	\$ (1,290,000)	\$ 43,355,000	\$ 1,130,000	\$ 42,225,000
Revenue bonds	5,495,000	-	(150,000)	5,345,000	155,000	5,190,000
Public works trust fund loans	1,155,572	-	(191,238)	964,334	191,239	773,095
Total bonds and loans payable	<u>51,295,572</u>	<u>-</u>	<u>(1,631,238)</u>	<u>49,664,334</u>	<u>1,476,239</u>	<u>48,188,095</u>
Compensated absences	420,587	191,409	(180,381)	431,615	143,870	287,745
Net pension liability*	<u>3,204,365</u>	<u>-</u>	<u>(284,429)</u>	<u>2,919,936</u>	<u>-</u>	<u>2,919,936</u>
Government activities, long-term liabilities	<u>\$ 54,920,524</u>	<u>\$ 191,409</u>	<u>\$ (2,096,048)</u>	<u>\$ 53,015,885</u>	<u>\$ 1,620,109</u>	<u>\$ 51,395,776</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year	Due in More than One Year
Business-type Activities						
Bonds and loans payable						
Public works trust fund loans	\$ 411,298	\$ -	\$ (81,229)	\$ 330,069	\$ 81,230	\$ 248,839
Total bonds and loans payable	<u>411,298</u>	<u>-</u>	<u>(81,229)</u>	<u>330,069</u>	<u>81,230</u>	<u>248,839</u>
Compensated absences	46,747	21,274	(20,049)	47,972	15,990	31,982
Net pension liability*	<u>438,642</u>	<u>-</u>	<u>(19,289)</u>	<u>419,353</u>	<u>-</u>	<u>419,353</u>
Government activities, long-term liabilities	<u>\$ 896,687</u>	<u>\$ 21,274</u>	<u>\$ (120,567)</u>	<u>\$ 797,394</u>	<u>\$ 97,220</u>	<u>\$ 700,174</u>

*Net pension liability beginning balance has been adjusted for the implementation of GASB 68 and 71.

The general fund and internal service funds typically have been used in prior years to liquidate the liability for compensated absences.

F. Transfers

Transfers are legally authorized contributions of resources from one fund to another to subsidize designated activities or expenditures. Transfers are accounted for as "Other Financing Sources and Uses". The City transferred funds for various construction projects, to the debt service fund as principle and interest payments become due and to finance various programs accounted for in other funds in accordance with budgetary authorizations. The following transfers were recorded during 2015:

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Fund Category	2015	
	Transfer in	Transfer out
General	\$ 7,310	\$ 4,120,160
Surface water management	-	1,367,936
Public works capital improvement	2,675,969	-
Nonmajor capital project funds	67,288	-
Debt service	3,777,420	-
Nonmajor special revenue fund	489,395	1,568,565
LRF	2,000	345,136
Internal service	382,415	-
Total	<u>\$ 7,401,797</u>	<u>\$ 7,401,797</u>

G. Construction and other significant commitments

Construction Commitments - The City has active public works capital improvement construction projects as of December 31, 2015. The projects include street construction and widening, parks and trails, general government facilities, technology upgrades and waterworks system improvements. At December 31, 2015, the City's construction commitments were \$189,946.

Construction Commitments	
Project	Remaining
Bridgeport Phase 5	\$ 72,133
Mildred/67th	20,021
Soundview Drive/SWM	10,945
Olympic Dr. W/SWM	10,945
Tahoma Place/SWM	10,945
SafeRoutes Elwood	2,000
Bridgeport 4A	24,069
Cirque Dr. Overlay	20,000
Garage Painting	18,888
Total	<u>\$ 189,946</u>

Encumbrances - Encumbrances (e.g., purchase orders, contracts) accounting is employed in governmental funds. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At the year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General funds	\$ 142,397
Total	<u>\$ 142,397</u>

NOTE V. PENSION PLANS

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 3,339,289
Pension assets	\$ -
Deferred outflows of resources	\$ 407,146
Deferred inflows of resources	\$ 514,943
Pension Expense/Expenditures	\$ 329,312

CITY OF UNIVERSITY PLACE

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State Sponsored Pension Plans

Substantially all of the City of University Place's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

* For employees participating in JBM, the contribution rate was 12.26%

The city's actual contributions to the plan were \$0 for the year ended December 31, 2015.

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

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

* For employees participating in JBM, the contribution rate was 15.30%

The city's actual contributions to the plan were \$372,832 for the year ended December 31, 2015.

Actuarial Assumptions

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

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

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

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NOTES TO THE FINANCIAL STATEMENTS

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.00 %	1.70 %
Tangible assets	5.00 %	4.40 %
Real estate	15.00 %	5.80 %
Global equity	37.00 %	6.60 %
Private equity	23.00 %	9.60 %
	100.00 %	28.10 %

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 2,159,680	\$ 1,773,861	\$ 1,442,091
PERS 2/3	\$ 4,577,392	\$ 1,565,428	\$ (740,720)

CITY OF UNIVERSITY PLACE

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Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City of University Place reported a total pension liability of \$3,339,289 for its proportionate share of the net pension liabilities as follows:

PERS 1	\$ 1,773,861
PERS 2/3	\$ 1,565,428

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

	Proportionate Share 6/30/2014	Proportionate Share 6/30/2015	Change in Proportion
PERS 1	0.033220 %	0.033911 %	0.000691 %
PERS 2/3	0.042771 %	0.043812 %	0.001041 %

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

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

Pension Expense

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

	Pension Expense
PERS 1	\$ (11,821)
PERS 2/3	341,133
TOTAL	\$ 329,312

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and experience PERS 2/3	\$ 166,405	\$ 417,893
Change of assumptions pers 2/3	2,522	-
Changes in proportion and differences between contributions and proportionate share of contributions PERS 2/3	33,495	-
Contributions subsequent to the measurement date PERS 2/3	204,724	-
Total PERS 2/3	<u>\$ 407,146</u>	<u>\$ 417,893</u>
Differences between actual and experience PERS 1.	-	97,050
Total all plans	<u>\$ 407,146</u>	<u>\$ 514,943</u>

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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2016	\$	9,852
2017	\$	9,852
2018	\$	9,852
2019	\$	3,940
2020	\$	-
Thereafter	\$	-

Other Local Government Pension Systems - City of University Place Employee's Retirement Plan

The City Council established a defined contribution retirement plan called the University Place Retirement Plan effective August 31, 1995 (the date of incorporation) in accordance with Internal Revenue Code Section 401(a). The plan was established as an alternative to the Federal Social Security System and is authorized by the Federal Social Security Act (42 USCA, Section 418(g)). In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the financial statements of the City. The City Council is authorized under RCW 41.48.050 to establish or amend the plan's provisions and contribution requirements.

The plan is currently administered by ICMA Retirement Corporation. The City Manager is the appointed Trustee of the plan. Covered payroll for 2015 was \$3,335,836 and total City payroll for benefit covered employees was \$3,746,366. The City's contribution was \$206,822 and the employee's contribution was \$227,444. During 2015, there were a total of 49 individuals covered by this plan. As of the end of the year, 45 remained as active employees of the City. The three inactive employees have left the City's employment and either had been reimbursed their contributions or reimbursement was pending. Six employees are on a union retirement plan.

The pension benefits a participant will receive depend only on the amount contributed to the participant's account and earnings on investments of these contributions. Employees' self-direct investment amounts to various investment options for both employee and employer contributions. All contributions are invested in instruments arranged through the ICMA Retirement Corporation. The plan assets are not the property of the City and are not subject to the claims of the City's general creditors.

All regular, non-represented employees are required to participate in the City's 401(a) defined contribution retirement plan. The employee contributes a minimum of 6.0% up to 18.0%, and the City provides a matching contribution of 6.2%. Contributions into the plan are tax deferred. Vesting for the City share of the 401(a) contribution is 33.3%

International Union of Operating Engineers (IUOE)

Employees represented by the bargaining unit of International Union of Operating Engineers (IUOE) participate in the IUOE pension plan. Per collective bargaining agreement, the City contributes 13.7% to the IUOE pension plan and no employee contribution is required.

NOTE VI. OTHER INFORMATION

A. Other Employee Benefits

Health and Welfare

The City of University Place is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

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

As of December 31, 2015, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

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

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

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

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

For the employees of the City of University Place, per the contract through the Trust to the insurance company, the employer must pay 50% of the premium for medical insurance however the employer does not have a requirement to pay a minimum level for dependents. For dental (WDS/Willamette) the Trust requires the employer to pay 75% of the employee, spouse, and dependent premium. For vision (VSP) the Trust requires the employer to pay 100% of the employee premium. Since this is full family coverage, the payment actually is the same for the employee and anyone in the family that is covered. The City's contributions to the Trust for the year ended December 31, 2015 were \$662,488 for Medical, \$67,106 for Dental and \$10,008 for Vision which equaled the required contributions of that year.

Long-term Disability

The City also provides insurance payments (approximately 1%) for all full-time employees for long-term disability, survivor, accidental death and dismemberment, and lump sum death benefit coverage.

Deferred Compensation

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. These plans permit City employees to defer a portion of their salary into future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. Employees may choose to have their plan administered by the State of Washington Deferred Compensation Program (DCP), ICMA Retirement Corporation, Nationwide Retirement Solutions, or Teachers Insurance and Annuity Association/College Retirement Equity Fund (TIAA-CREF). The plan became effective June 14, 1995.

In accordance with GASB Statement 32, the assets of the deferred compensation plans are no longer presented in the City's financial statements. Due to recent changes in the tax law as set forth in the Internal Revenue Code, these assets are not the property of the City or subject to the claims of the City's general creditors.

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B. Other Post-Employment Benefits

Association of Washington Cities Benefit Trust ("Trust")

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

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

Health First - 1000	Health First - 2500
\$871.51 for non-Medicare enrolled retiree coverage	\$760.96 for non-Medicare enrolled retiree coverage
\$879.12 for non-Medicare enrolled spouse coverage	\$766.49 for non-Medicare enrolled spouse coverage
N/A for Medicare enrolled retiree coverage	N/A for medicare enrolled retiree coverage
N/A for non-Medicare enrolled spouse coverage	N/A for non-Medicare enrolled spouse coverage

Participating Employers are not contractually required to contribute at the rates assessed each year for non-LEOFF I retirees. The retiree pays for 100% of the premium.

Retirement Health Savings

The city also offers employees a Retirement Health Savings (RHS) plan for all benefit eligible employees. RHS is a plan to provide tax-free savings during employment for payment of medical insurance premiums and other qualified post-employment medical expenses allowable under IRC Section 213. The RHS plan is considered to be an HRA (Health Reimbursement Account), and as such Retirement Health Savings plans are unique. As compared to other retirement fund accounts, RHS accumulates on a tax deferred basis and the proceeds are tax free upon withdrawal.

The plan is administered by ICMA Retirement Corporation. The City Manager is the appointed Trustee of the plan.

Until 2007, an employee could make the individual choice to join RHS and determine the amount to be contributed into the account. In April of 2007, the Internal Revenue Service issued a revenue ruling that created a uniform rule set for all HRA accounts. As a result of this ruling, the City had to organize itself into several groups and the affected employees within each group had to decide if they wanted to opt in at a predetermined amount or completely opt out of the system. The City was organized into the following groups: executive team, management team, union staff, line staff, and finally the City Council.

A mandatory city-wide vote was conducted to determine if employees would participate in RHS. This vote was finalized on December 6, 2007. With the exception of the City Council group, which opted out of RHS, groups had over a 60% consensus for opting into the RHS program. The resolution was then brought before the City Council on December 17, 2007 and was unanimously passed. The revised RHS plan took effect on January 1, 2008. A vote was taken again in 2011 and all participating groups opted to continue their participation at the existing rates. The following is a breakdown of what percent of salary each group decided to participate at:

Executive team	3.5 %
Management team	3.0 %
Union staff	2.0 %
Line staff	1.5 %

The total amount contributed by employees in 2015 was \$96,585.

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C. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are due on approximately the 10th of each month for the prior month's collections.

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 percent of market value.
October 31	Second installment is due.

During the year, property tax revenues are recognized when payments are received from the County. At year end, property tax revenues are recognized for collections expected to occur within 60 days. Unpaid property taxes are recorded as delinquent taxes receivable, offset by deferred inflows. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

Washington State (RCW 84.55.010) limits the growth of regular property taxes to six percent per year, after adjustment for new construction. If the assessed valuation increases by more than six percent due to reevaluation, the levy rate will be reduced.

The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

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

The City's regular tax levy for 2015 was \$1.35 per \$1,000 on an assessed valuation of \$3,006,817,787 for a total regular levy of \$4,045,432.

D. Risk Management

The City of University Place is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards, and survivor benefits.

The City is self-insured for unemployment insurance purposes. The City's plan is administered through Washington State Employment Security Department, which provides partial compensation to workers who are temporarily and involuntarily unemployed. The City reimburses the Washington State Employment Security Department in full for any payments made to former employees.

Risk Management Fund

The City established the Risk Management Fund as an Internal Service Fund to pay insurance premiums, claims, and deductibles for the above areas of risk, as well as to establish reserves for self-insurance and uncovered losses. City operating funds contribute to the Insurance Fund based on information from the contributing funds past claims experience and loss exposures. In the past three years, none of the settlements exceeded the City's insurance coverage. The Risk Management Fund reserves for December 31, 2015 and 2014 were as follows:

	2015	2014
Beginning of year	\$ -	\$ -
Additions	124,123	116,474
Deletions	(124,123)	(116,474)
End of Year	<u>\$ -</u>	<u>\$ -</u>

E. Estimated Arbitrage Rebate

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City's estimated rebatable arbitrage amount as of December 31, 2015 is \$0 for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date.

F. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

At the close of 2015, there were a small number of claims for damages and lawsuits pending against the City. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

G. Transportation Benefit District

In 1987, the State Legislature created Transportation Benefit Districts (TBDs) as an option for local governments to fund transportation improvements. Chapter 36.73 of the Revised Code of Washington provides for the establishment of TBD by cities and counties for the sole purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the district.

The University Place Transportation Benefit District (UPTBD) was created on December 2, 2013. The UPTBD Governing Board is comprised of all University Place City Councilmembers. The University Place Transportation Benefit District Board

CITY OF UNIVERSITY PLACE NOTES TO THE FINANCIAL STATEMENTS

authorized a vehicle license fee of \$20. In July of 2014, the Washington State Department of Licensing began collecting the vehicle license fee on behalf of the UPTBD to fund maintenance, preservation, and safety enhancements to University Place's existing transportation network.

The 2015 Legislature adopted Second Engrossed Substitute Senate Bill ("2ESSB") 5987 which authorizes any city in which a transportation benefit district ("TBD") has been established pursuant to chapter 36.73 RCW with boundaries coterminous with the boundaries of the city to assume the rights, powers, functions, and obligations of the TBD, by adoption of an ordinance or resolution of the city legislative authority.

On November 16, 2015 the City Council passed Ordinance 660 assuming the rights, powers, functions and obligations of the University Place Transportation Benefit District. The ordinance did not change any collection amounts or the use of the funds as originally adopted by the City Council.

Note VII. BEGINNING NET POSITION AND FUND BALANCE ADJUSTMENTS AND OTHER CHANGES

The City's Fund balance, beginning of year for the General fund has been restated in the statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, to account for a correction in the amount accrued for deferred revenue at that date. The deferred revenue accrual was determined to be overstated by \$87,030, resulting in an overstatement of the City's fund balance of an equal amount. This restatement effects the governmental fund financial statements only because unavailable revenue from property taxes are not considered revenue until collectable under its modified accrual basis approach and the City-wide financial statements, which uses a full accrual basis approach considers available revenue for property taxes financial resources for governmental activities.

The City's LRF fund's beginning fund balance was restated due to an error in recording accrued interest payable on the fund financial statements in error. This should only be recorded on the City-wide statements which uses a full accrual basis approach considers unavailable revenue for property taxes financial resources for governmental activities

The City's Fleet & Equipment fund and Information Technology & Services funds beginning net position has been restated because of an error in overstating accumulated depreciation and depreciation expense. These funds beginning net position have increased by \$45,109 and \$22,576 respectively.

All additional prior period adjustment amounts are explained in Note 1B with the implementation of GASB 68 & 71.

City of University Place
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget (GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 5,269,750	\$ 5,328,750	\$ 6,114,393	\$ 785,643
Licenses and permits	2,278,200	2,485,095	2,614,487	129,392
Intergovernmental	248,870	248,870	437,338	188,468
Charges for services	430,073	430,073	397,322	(32,751)
Miscellaneous				
Fines and forfeitures	-	-	361	361
Rental, concessions and sales	69,350	69,350	52,928	(16,422)
Investment earnings	20,300	20,300	42,489	22,189
Other revenues	6,001	6,001	4,972	(1,029)
Total revenues	<u>8,322,544</u>	<u>8,588,439</u>	<u>9,664,290</u>	<u>1,075,851</u>
Expenditures				
Current				
General government	3,012,742	3,084,096	2,547,087	537,009
Public safety	-	-	3,231	(3,231)
Transportation	268,951	268,951	265,632	3,319
Natural and economic environment	462,449	711,511	349,449	362,062
Culture and recreation	123,410	123,410	96,591	26,819
Total expenditures	<u>3,867,552</u>	<u>4,187,968</u>	<u>3,261,990</u>	<u>925,978</u>
Excess (deficiency) of revenues over expenditures	<u>4,454,992</u>	<u>4,400,471</u>	<u>6,402,300</u>	<u>149,873</u>
Other financing sources/uses				
Transfers out	(4,340,789)	(5,335,329)	(3,993,956)	1,341,373
Proceeds from sale of assets	<u>120,000</u>	<u>1,133,235</u>	<u>120,000</u>	<u>(1,013,235)</u>
Total other financing sources/uses	<u>(4,220,789)</u>	<u>(4,202,094)</u>	<u>(3,873,956)</u>	<u>328,138</u>
Net change in budgetary fund balances	234,203	198,377	2,528,344	478,011
Fund balances, beginning of year	1,101,982	1,398,892	5,633,563	4,234,671
Prior period adjustments	-	-	(88,659)	(88,659)
Fund balance, beginning of year restated	<u>1,101,982</u>	<u>1,398,892</u>	<u>5,544,904</u>	<u>4,146,012</u>
Fund balances, end of year	<u>\$ 1,336,185</u>	<u>\$ 1,597,269</u>	<u>8,073,248</u>	<u>\$ 4,624,023</u>

Perspective Difference Reconciliation:

Actual fund balance-general fund schedule of revenues, expenditures, and changes in fund balance

\$ 8,073,248

The following funds were budgeted as special revenue funds but do not meet the definition of a special revenue fund under GASB Statement 54 and therefore are accounted for within the General Fund

Police and Public Safety	1,471,411
Parks and Recreation	(1,176,580)
Development Service Fund	(730,788)
Strategic Reserve Fund	<u>856,934</u>

Total fund balance - general fund balance sheet for governmental funds

\$ 8,494,225

City of University Place
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget (GAAP Basis) and Actual
LRF
For the Year Ended December 31, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 500,000	\$ 500,000	\$ 522,937	\$ 22,937
Total revenues	500,000	500,000	522,937	22,937
Expenditures				
Debt service				
Principal retirement	150,000	150,000	150,000	-
Interest	252,000	252,200	247,913	4,287
Total expenditures	402,000	402,200	397,913	4,287
Excess (deficiency) of revenues over expenditures	98,000	97,800	125,024	18,650
Other financing sources/uses				
Transfers in	-	-	2,001	2,001
Transfers out	(98,000)	(1,886,320)	(345,136)	1,541,184
Total other financing sources/uses	(98,000)	(1,886,320)	(343,135)	1,543,185
Net change in fund balances	-	(1,788,520)	(218,111)	1,561,835
Fund balances, beginning of year	-	(1)	1,768,026	1,768,027
LRF Prior Period Adjustments	-	-	20,493	-
Fund balances, beginning of year restated	-	(1)	1,788,519	1,768,027
Fund balances, end of year	\$ -	\$ (1,788,521)	\$ 1,570,408	\$ 3,329,862

City of University Place
Schedule of Proportionate Share of the Net Pension Liability
Public Employee's Retirement System Plan 1
As of June 30, 2015
Last 10 Fiscal Years*

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.033911 %
Employer's proportionate share of the net pension liability	<u>\$ 1,565,428</u>
Total	<u>\$ 1,565,428</u>
Employer's covered employee payroll	<u>\$ 3,880,652</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.34 %
Plan fiduciary net position as a percentage of the total pension liability	89.20 %

* Until a full 10-year trend is compiled, the City will not represent information for those years for which information is not available.

City of University Place
Schedule of Proportionate Share of the Net Pension Liability
Public Employee's Retirement System Plans 2 and 3
As of June 30, 2015
Last 10 Fiscal Years*

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.043812 %
Employer's proportionate share of the net pension liability	<u>\$ 1,565,428</u>
Total	<u>\$ 1,565,428</u>
Employer's covered employee payroll	<u>\$ 3,880,652</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.34 %
Plan fiduciary net position as a percentage of the total pension liability	89.20 %

* Until a full 10-year trend is compiled, the City will not represent information for those years for which information is not available

City of University Place
Schedule of Employer Contributions
Public Employee's Retirement System Plans 2 and 3
As of December 31, 2015
Last 10 Fiscal Years*

	<u>2015</u>
Statutorily or contractually required contributions	\$ 372,832
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (372,832)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 3,830,087</u>
Contributions as a percentage of covered payroll	9.73 %

* Until a full 10-year trend is compiled, the City will not represent information for those years for which information is not availabl.

City of University Place
Notes to the Required Supplementary Information

Budgetary Information

The City's biennial budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds.

Public Employee's Retirement System Plan 1

The City had no Plan 1 contributions during 2015 and therefore has omitted the schedule of employer contributions for Plan 1.

City of University Place
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency Name/Pass- Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Passed Through to Subrecipients	Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total		
U.S. Department of HUD/Pass-Through Pierce County Department of Community Services	Community Development Block Grants/Entitlement Grants	14.218	97979-0	\$ 223,300	\$ -	\$ 223,300		
			Subtotal	223,300	-	223,300	0	1,2,7
U.S. Department of Transportation (NHTSA)/Pass Through Washington Traffic Safety Commission	State and Community Highway Safety Alcohol Impaired Driving	20.600	N/A	5,328	-	5,328		
		20.600	N/A	613	-	613		
		20.616	N/A	594	-	594		
			Subtotal	6,535	-	6,535	0	
U.S. Department of Justice Bureau of Justice Assistance	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3262	-	10,414	10,414		
			Subtotal	-	10,414	10,414	0	1,2,7
U.S. Department of Transportation/Pass Through from WSDOT	Highway Planning and Construction	20.205	SPUL-2947(011)	466,972	-	466,972		
			STPUL-CM-2947(014)	152,772	-	152,772		
			STPUL-CM-2957(006)	57,333	-	57,333		
			SRTS-3236(009)	1,042	-	1,042		
			SRTS-3239(001)	163	-	163		
			SRTS-3212(001)	682,198	-	682,198		
			SRTS-1343(003)	229,093	-	229,093		
			STPUL-3200(003)	679,907	-	679,907		
			CM-3236(012)	1,422	-	1,422		
			STPUL-2947(018)	2,149	-	2,149		
			STPUL-3200(004)	671,633	-	671,633		
			SRTS-9927(058)	48,048	-	48,048		
			STPUL-3200(002)	68,400	-	68,400		
			Subtotal	3,061,132	-	3,061,132	0	1,2,7
TOTAL FEDERAL AWARDS EXPENDED				\$ 3,290,967	\$ 10,414	\$ 3,301,381	0	

Note 1. - Basis of Accounting

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City of University Place's governmental fund financial statements. The City uses the modified accrual basis of accounting, which is the basis adapted to governmental fund-type measurement focus. All grants reported on this schedule have been accounted for in governmental fund types. Grant revenues are determined to be earned and available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of University Place's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 - Indirect Cost Rate

The City of University Place has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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