

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Kennewick
Benton County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012319

Issue Date
August 4, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

August 4, 2014

Mayor and City Council
City of Kennewick
Kennewick, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

TROY KELLEY
STATE AUDITOR

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Benton County
January 1, 2013 through December 31, 2013**

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Federal Summary

City of Kennewick Benton County January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants

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

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**City of Kennewick
Benton County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kennewick
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The prior year comparative information has been derived from the City's 2012 basic financial statements, on which we issued our report dated June 27, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

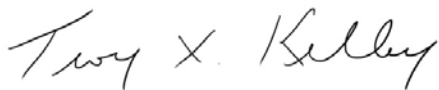
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

June 30, 2014

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

**City of Kennewick
Benton County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kennewick
Kennewick, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR

July 29, 2014

Independent Auditor's Report on Financial Statements

City of Kennewick Benton County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kennewick
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, Benton County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11. The prior year comparative information has been derived from the City's 2012 financial statements and, in our report dated June 27, 2013, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2012, from which such partial information was derived.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kennewick, as of December 31, 2013 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 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

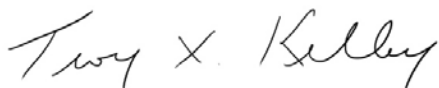
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 31, budgetary comparison information on pages 93 through 95, information on postemployment benefits other than pensions on page 96 and pension trust fund information on page 97 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

June 30, 2014

Financial Section

**City of Kennewick
Benton County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012

Statement of Activities – 2013 and 2012

Balance Sheet – Governmental Funds – 2013 and 2012

Reconciliation of Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position – Governmental Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2013 and 2012

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2013

Statement of Net Position – Proprietary Funds – 2013 and 2012

Reconciliation of the Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2013 and 2012

Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Net
Position of Proprietary Funds to the Statement of Activities – Business Type
Activities – 2013

Statement of Cash Flows – Proprietary Funds – 2013 and 2012

Statement of Fiduciary Net Position – Fiduciary Funds – 2013 and 2012

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013 and 2012

Notes to the Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2013

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– Community Development Fund – 2013

Notes to Required Supplementary Information – 2013

Firemen's Pension Fund – 2013

Other Postemployment Benefits (LEOFF 1 Retiree Medical) – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Management's Discussion and Analysis

As management of the City of Kennewick, we offer readers of the City of Kennewick's financial statements this narrative overview and analysis of the financial activities of the City of Kennewick for the year ended December 31, 2013. The information presented within this overview should be considered in conjunction with our letter of transmittal and the city's financial statements immediately following this analysis.

Financial Highlights

- ◆ The assets of the City of Kennewick exceeded its liabilities at December 31, 2013 by \$335,921,427 (*net position*). Of this amount, \$23,080,279 (*unrestricted net position*) may be used to meet the city's ongoing obligations to citizens and creditors. However, although not formally restricted, a portion of unrestricted net position as of December 31, 2013 has been identified by City Council for projects that were in progress or planned at the end of 2013, but will not be completed until 2014 or beyond.
- ◆ The city's total net position increased by \$9,569,672 in 2013. A significant portion of this increase is attributable to capital grants and contributions received from developers in the form of donated infrastructure related to residential and commercial development and state and federal grants received for street reconstruction and improvement projects and water and sewer infrastructure improvements.
- ◆ Expenses were \$38,421,949 greater than the program revenues generated for governmental activities. Program revenues exceeded expenses by \$3,966,808 for business-type activities.
- ◆ As of December 31, 2013, the City of Kennewick's governmental funds reported combined ending fund balances of \$13,007,791, a decrease of \$1,686,561 in comparison with the prior year. Approximately 18 percent of this total amount, \$2,395,467, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council's intent for a specific purpose (\$4,147,550), committed for specific purposes pursuant to constraints imposed by a formal action of the city's highest level of decision making authority (\$5,845,814), or restricted externally for a specific purpose (\$618,960).
- ◆ As of December 31, 2013, unassigned fund balance for the general fund was \$2,891,427, or 6.2 percent of total reported general fund expenditures and 5.9 percent of total operating fund expenditures (general and street fund), which exceeds the city's budgetary policy of maintaining fund balance equal to 5 percent of annual operating expenditures for these funds. In addition, committed fund balance reported in the city's general fund was \$2,675,500 as of December 31, 2013. This fund balance is committed through council budget policy to respond to potential unforeseen adversities or major projects that were not anticipated when the city's budget was prepared. Together these fund balances represent approximately 11.3 percent of actual reported operating fund expenditures for 2013.
- ◆ The City of Kennewick's total net capital assets increased by \$9,039,435 during the year ended December 31, 2013. This increase reflects the investment made in the city's infrastructure including parks, city streets and water and sewer infrastructure. These capital projects were funded utilizing a combination of private and public resources.
- ◆ The City of Kennewick's total outstanding debt decreased by \$3,428,934 during the year ended December 31, 2013. This net change reflects the addition of a \$1.18 million capital lease for replacement of police vehicles within governmental activities and state loans totaling \$731,101 for water and stormwater infrastructure projects within business-type activities, net of scheduled principal payments on the city's outstanding bonds and notes payable.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

The City of Kennewick maintains two different types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Kennewick uses six enterprise funds to account for its water and sewer utility, ambulance service, building inspection function, coliseum facility operations, stormwater utility and golf course

operations. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city. The City of Kennewick uses three internal service funds to account for the management, maintenance, and repair of city-owned equipment, the purchasing, warehousing, and disbursement of office and maintenance supplies for all departments within the city, and for insurance programs and other risk management services to all city departments. Because all three of these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, changes in net position may serve over time as a useful indicator of a government's financial position. As of December 31, 2013, the City of Kennewick's assets exceeded liabilities by \$335,921,427. The following is a condensed version of the city's statement of net position for the years ended December 31, 2013 and 2012, respectively.

City of Kennewick
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current assets	\$ 33,505,239	\$ 33,781,307	\$ 1,270,287	\$ 2,337,871	\$ 34,775,526	\$ 36,119,178
Capital assets	201,852,443	197,347,874	156,640,857	152,105,991	358,493,300	349,453,865
Other noncurrent assets	5,958,555	7,191,722	2,499,630	1,978,320	8,458,185	9,170,042
Total assets	<u>241,316,237</u>	<u>238,320,903</u>	<u>160,410,774</u>	<u>156,422,182</u>	<u>401,727,011</u>	<u>394,743,085</u>
Deferred Outflows of Resources						
Deferred charge on refunding	464,533	525,675	-	-	464,533	525,675
Total deferred outflows of resources	<u>464,533</u>	<u>525,675</u>	<u>-</u>	<u>-</u>	<u>464,533</u>	<u>525,675</u>
Total assets and deferred outflows of resources	<u>\$ 241,780,770</u>	<u>\$ 238,846,578</u>	<u>\$ 160,410,774</u>	<u>\$ 156,422,182</u>	<u>\$ 402,191,544</u>	<u>\$ 395,268,760</u>
Liabilities						
Current liabilities	\$ 7,486,220	\$ 7,209,039	\$ 5,120,729	\$ 4,445,435	\$ 12,606,949	\$ 11,654,474
Noncurrent liabilities	30,569,354	32,312,427	23,093,814	24,950,104	53,663,168	57,262,531
Total liabilities	<u>38,055,574</u>	<u>39,521,466</u>	<u>28,214,543</u>	<u>29,395,539</u>	<u>66,270,117</u>	<u>68,917,005</u>
Net Position						
Net investment in capital assets	172,104,152	166,718,484	131,571,448	125,076,013	303,675,600	291,794,497
Restricted	7,268,509	7,976,840	1,897,039	1,835,482	9,165,548	9,812,322
Unrestricted (deficit)	24,352,535	24,629,788	(1,272,256)	115,148	23,080,279	24,744,936
Total net position	<u>203,725,196</u>	<u>199,325,112</u>	<u>132,196,231</u>	<u>127,026,643</u>	<u>335,921,427</u>	<u>326,351,755</u>
Total liabilities and net position	<u>\$ 241,780,770</u>	<u>\$ 238,846,578</u>	<u>\$ 160,410,774</u>	<u>\$ 156,422,182</u>	<u>\$ 402,191,544</u>	<u>\$ 395,268,760</u>

The majority of the City of Kennewick's net position (90 percent) reflects its investment in capital assets, such as land, buildings, improvements, infrastructure and equipment, less any related debt used to acquire those assets that is still outstanding, net of any unspent debt proceeds, which is \$54,817,700. These capital assets are used to provide services to citizens and therefore, it should be noted that these assets are not available for future spending. In addition, it should also be noted that although the City of Kennewick's investment in its capital assets is reported net of related debt, other resources will be drawn upon to repay this debt, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kennewick's net position (3 percent) is subject to external restrictions, including bond covenants and construction requirements, on how they must be used. The remaining balance of unrestricted net position of \$23,080,279 may be used to meet the government's ongoing obligations to citizens and creditors. However, a portion of unrestricted net position as of December 31, 2013 is earmarked by City Council for future projects and other needs of the city for the remainder of its 2013/2014 biennium.

As of December 31, 2013, the City of Kennewick was able to report positive balances in all three categories of net position. In addition, governmental activities and business-type activities were also able to report positive balances in all categories, with the exception of unrestricted net position for business-type activities. This overall deficit balance was attributable to a deficit in unrestricted net position for the city's coliseum business-type activity, which is the result of the fact that the city utilized interfund loans to finance the acquisition of its coliseum facility and the refurbishment of the facility's marquee sign, rather than external debt. The outstanding balance of these interfund loans, which is \$3,491,107, is not considered capital related debt for purposes of calculating the net position category of net investment in capital assets, under generally accepted accounting principles. Instead, the interfund loans reduce unrestricted net position, despite the fact that the purpose of the loans was to acquire the facility and refurbish the sign.

As mentioned in the financial highlights section of this analysis, the city's net position increased by \$9,569,672 overall for the year ended December 31, 2013. A large portion of this increase was attributable to capital grants and contributions received from developers in the form of donated infrastructure related to residential and commercial development and state and federal grants received for street reconstruction and improvement projects and water and sewer infrastructure improvements.

Governmental activities increased the City of Kennewick's net position by \$4,400,084 during the year ended December 31, 2013, which equated to 46 percent of the overall increase of \$9,569,672 for the government as a whole. Key elements of the current year's increase in net position and changes relative to the prior year follow.

- ◆ Program revenues decreased by approximately \$2.2 million overall during 2013. The largest factors in this overall decline were decreases experienced in both operating and capital grants and contributions. Operating grants and contributions decreased by just over \$1 million in 2013, which was attributable to a large energy efficiency rebate received by the city in 2012 from the local public utility district (PUD) associated with a street light replacement project. Capital grants and contributions also decreased in 2013 by slightly more than \$1.4 million, primarily due to a decline in state and federal grant proceeds. During 2012, the city received a large amount of federal and state grant proceeds for phase 2 of its Steptoe Street extension, which was completed in early 2013. Once all phases are completed, the Steptoe extension will provide a new link from the city's northwestern retail district to its southern area where 60 percent of the city's future growth is expected to occur.
- ◆ On a full accrual basis, tax revenues increased by 4 percent in 2013 when compared to 2012, which equates to a total increase of approximately \$1,503,000. The most significant components of this overall increase were a 3 percent increase in property tax revenues, a 5 percent increase in sales tax, a 4 percent increase in overall utility tax revenue, and a 16 percent increase in real estate excise tax revenue, which were partially offset by an 18 percent decrease in gambling taxes.

The increase in property tax revenue for 2013 was primarily attributable to \$90.5 million in new construction value that was added to the city's assessed valuation in 2012 for the 2013 tax levy. Additionally, the Kennewick City Council elected to utilize a portion of the city's banked capacity for the 2013 levy to provide funding for the city to hire 3 new police officer positions during the year.

Sales tax revenue, which is the city's largest source of tax revenue, increased by 5 percent when compared to 2012. This increase was heavily influenced by sales tax received from the construction of a new hospital in the city's Southridge area. Additionally, the city experienced moderate growth in its base sales and use tax and a relatively large increase in sales and use tax received from auto dealerships.

City of Kennewick
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 6,361,860	\$ 6,143,539	\$ 26,506,892	\$ 26,099,889	\$ 32,868,752	\$ 32,243,428
Operating grants and contributions	4,857,674	5,872,026	-	148,320	4,857,674	6,020,346
Capital grants and contributions	6,466,596	7,898,495	3,642,149	3,413,942	10,108,745	11,312,437
General revenues:						
Property taxes	11,327,879	10,970,033	-	-	11,327,879	10,970,033
Sales taxes	16,989,376	16,228,417	-	-	16,989,376	16,228,417
Utility taxes	11,182,612	10,781,215	-	-	11,182,612	10,781,215
Real estate excise tax	1,566,341	1,353,345	-	-	1,566,341	1,353,345
Gambling excise tax	726,917	884,366	-	-	726,917	884,366
Lodging tax	1,222,104	1,207,325	-	-	1,222,104	1,207,325
Other taxes	257,892	345,575	-	-	257,892	345,575
Gain on sale of capital assets	569,956	132,709	-	-	569,956	132,709
Unrestricted investment earnings	99,617	99,819	82,119	66,852	181,736	166,671
Total revenues	61,628,824	61,916,864	30,231,160	29,729,003	91,859,984	91,645,867
Expenses:						
General government	7,891,898	7,136,128	-	-	7,891,898	7,136,128
Public safety	27,905,749	27,064,565	-	-	27,905,749	27,064,565
Transportation	10,206,856	12,133,473	-	-	10,206,856	12,133,473
Physical environment	215,621	328,764	-	-	215,621	328,764
Economic environment	1,930,526	2,211,703	-	-	1,930,526	2,211,703
Social services	205,718	58,396	-	-	205,718	58,396
Culture and recreation	6,413,809	5,734,522	-	-	6,413,809	5,734,522
Interest on long-term debt	1,337,902	1,413,563	-	-	1,337,902	1,413,563
Water and Sewer	-	-	15,205,134	14,705,621	15,205,134	14,705,621
Medical Services	-	-	4,352,832	4,243,726	4,352,832	4,243,726
Building Safety	-	-	1,106,334	1,005,156	1,106,334	1,005,156
Stormwater	-	-	1,409,865	1,402,604	1,409,865	1,402,604
Columbia Park Golf Course	-	-	308,301	294,023	308,301	294,023
Coliseum	-	-	3,799,767	4,171,753	3,799,767	4,171,753
Total expenses	56,108,079	56,081,114	26,182,233	25,822,883	82,290,312	81,903,997
Increase in net position before transfers	5,520,745	5,835,750	4,048,927	3,906,120	9,569,672	9,741,870
Transfers	(1,120,661)	(1,067,102)	1,120,661	1,067,102	-	-
Increase (decrease) in net position	4,400,084	4,768,648	5,169,588	4,973,222	9,569,672	9,741,870
Net position - beginning	199,325,112	194,556,464	127,026,643	122,053,421	326,351,755	316,609,885
Net position - ending	\$ 203,725,196	\$ 199,325,112	\$ 132,196,231	\$ 127,026,643	\$ 335,921,427	\$ 326,351,755

Utility tax revenue increased by 4 percent overall in 2013 when measured on a full accrual basis, which reflected increases in electric, cable, natural gas and garbage utility tax revenue for the year. The increases experienced from these tax sources was partially offset by a reduction in telephone utility tax revenue, which is a continuation of the city's trend for this revenue source in recent years. The city's telephone utility tax continues to decline due to the growing prevalence of non-taxable data services as a component of cellular telephone services, bundling of services by telephone and cable providers that result in reduced charges for each service, and the trend of consumers eliminating their home phones in favor of utilizing their cellular phones as their primary phone.

Sales of residential and commercial properties increased in 2013, resulting in a 16 percent increase in real estate excise tax during the year. Despite increases experienced for this tax revenue source for the last few years, real estate excise tax revenue collected by the city still remains well below its peak level in 2007.

Gambling tax revenue declined by 18 percent in 2012, which was primarily attributable to the closure of one of the city's larger gambling establishments in the fall of 2012.

- ◆ In 2013, a gain of approximately \$570,000 was generated from the sale of two parcels owned by the city. One of the parcels sold will be used for a new hotel adjoining the Kennewick Public Facilities District's convention center. The other was developed for a new restaurant in the city's Southridge area.
- ◆ Unrestricted investment earnings were essentially unchanged in 2013 when compared to 2012 as investment yields available through the city's primary investment vehicles including the Washington State Local Government Investment Pool (LGIP) and debt securities issues by federal credit agencies remained historically low.
- ◆ On an accrual basis, expenses within governmental activities increased by approximately \$27,000 in 2013 relative to 2012, which equates to an increase of less than 1 percent. The main factors in this moderate increase were an increase in personnel expenses within all governmental activity functions in 2013, offset by a significant reduction in expenses within the transportation function.

The following are some of the major factors leading to the overall increase in personnel expenses.

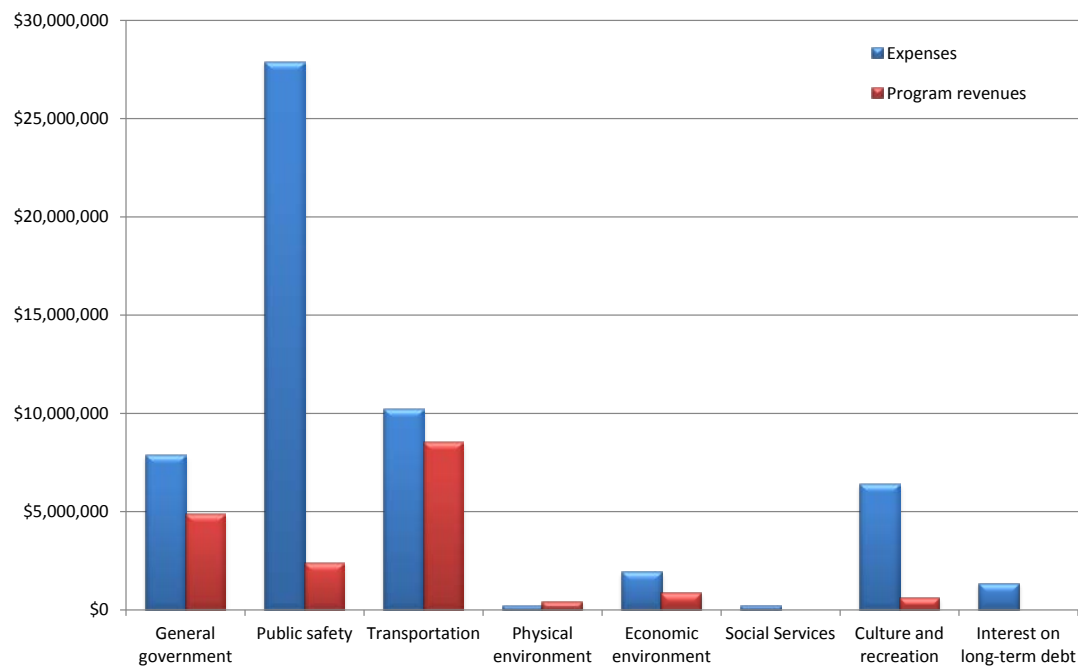
Expenses for salaries and wages increased by slightly less than 4 percent in 2013, or about \$842,000. This change was attributable to negotiated pay increases for the city's union personnel and pay for performance awards to its non-represented employees.

Expenses for personnel benefits increased by 5 percent in 2013, or approximately \$479,000. This overall increase was attributable to two main factors. First, the city's medical insurance premiums increased by 6 percent in 2013, which was partially offset by an increase to the portion of insurance premiums paid by employees. Additionally, the city experienced a significant increase in its expenses for retirement contributions for the State of Washington's Public Employee Retirement System (PERS) II and III retirement plans. In July of 2013, employer contribution rates were increased from 7.21 percent to 9.19 percent to address the unfunded liability of the state's PERS I plan. Although this rate change represents a 27 percent increase in retirement costs for this segment of the city's employees, the city's expenses were only impacted for half of the year.

As mentioned previously, the increase in expenses experienced within governmental activities in 2013 was offset to a large degree by a reduction in expenses within the transportation function. This reduction was attributable to a significant maintenance project with total expenses in excess of \$2 million in 2012 that involved a number of energy efficiency improvements for city facilities, including the replacement of all of the city's street lights with more efficient and longer lasting light bulbs. This project was partially funded with a federal grant as well as rebates received from a local public energy utility.

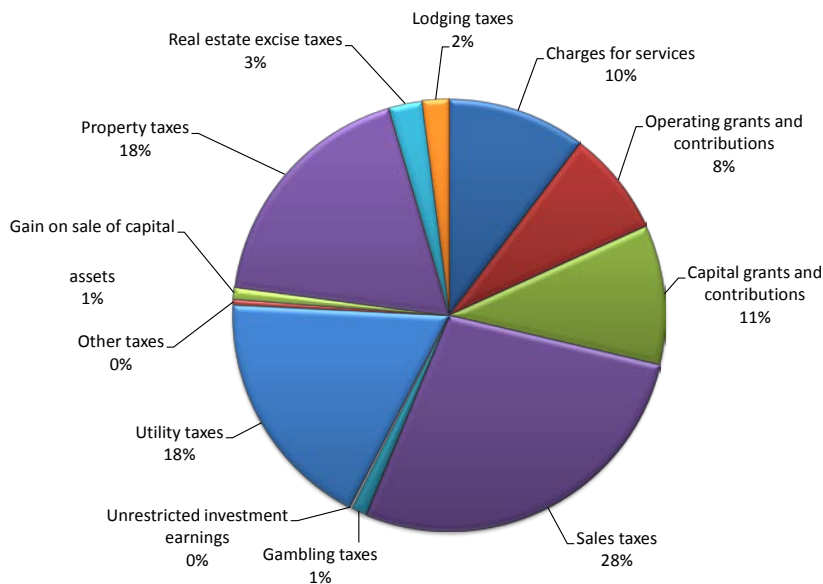
The following chart illustrates the surplus or net subsidy required for different governmental programs. The illustration clearly shows that all governmental programs were reliant on tax revenues in 2013 to cover the shortfall of program revenues available to fund the costs of providing service to Kennewick’s citizens.

Expenses and Program Revenues - Governmental Activities

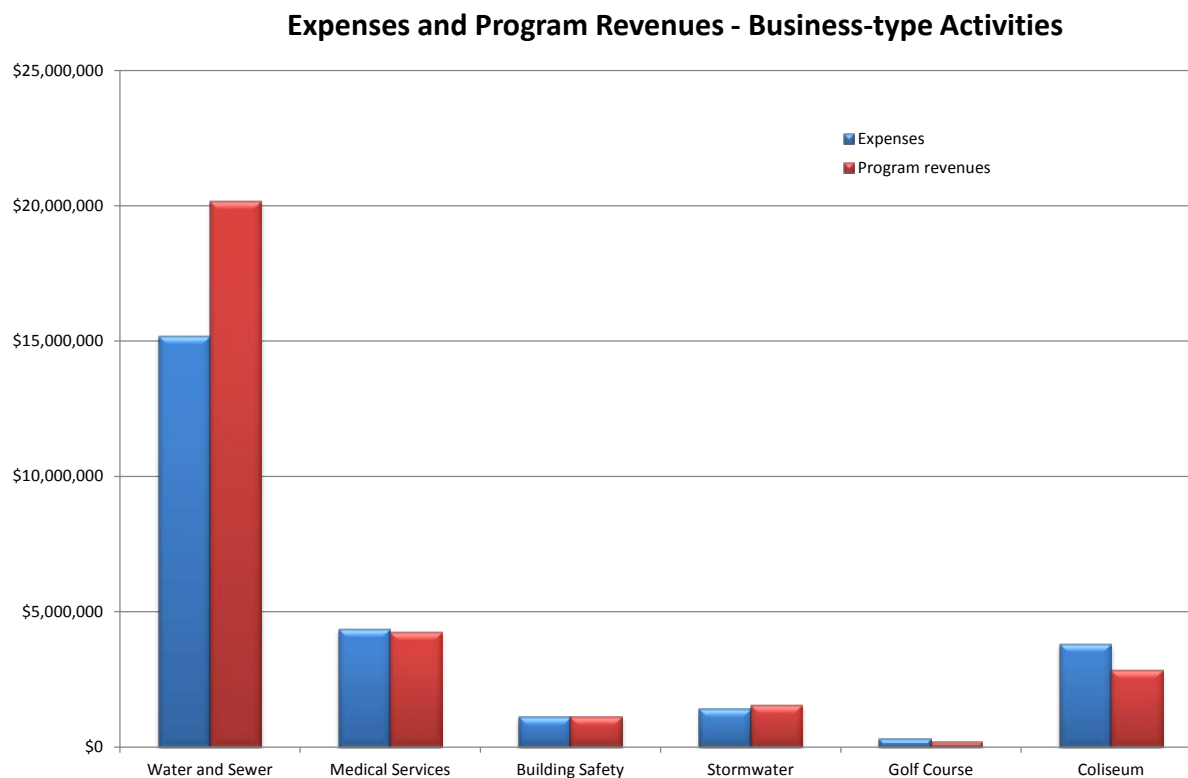


The following graph illustrates different components of the City of Kennewick's revenues from governmental activities. As the graph illustrates, taxes are the major revenue source, making up approximately 70 percent of the total revenues that support governmental activities. Program revenues, which include charges for services provided as well as operating and capital contributions from external parties, are also a large source of revenue used to support governmental activities, making up approximately 29 percent of total revenues.

Revenue by Source - Governmental Activities



Business-type activities contributed to the City of Kennewick's net position by \$5,169,588 for the period ended December 31, 2013, which equated to 54 percent of the overall increase of \$9,569,672 for the government as a whole. The following graph illustrates the excess of program revenues over expenses or expenses in excess of program revenues for each of the city's business-type activities. Key elements of the current year increase in net position and changes relative to the prior year follow.



- ◆ The largest component of revenues for business-type activities, charges for services, experienced an increase of 2 percent in 2013. The water and sewer business-type activity, which contributes most significantly to this revenue category when looking at business-type activities as a whole, experienced an overall increase of approximately 4 percent in 2013, which was attributable to a rate increase of 2.2 percent enacted for the year based on the annual change to the consumer price index pursuant to the city's municipal code and a minor increase in water and sewer customers and overall consumption during the year.

Within the medical services business-type activity, charges for services increased by 19 percent overall during 2013. This increase was directly attributable to modifications made to the city's rates for its ambulance utility that became effective in July of 2012. At that time, the ambulance transport rate for residents was increased to \$660 from its previous rate of \$578. Additionally, the city's monthly household ambulance charge was increased from \$3.24 per month to \$5.50 per month. Both rate changes were enacted by Kennewick City Council in an effort to fully enterprise the city's ambulance program and remove the need for any general fund operating contribution. Under the city's municipal code, the monthly household ambulance charge is also increased annually by the percentage change to the consumer price index, which resulted in a 2.2 percent increase to \$5.62 effective January 1, 2013. As a result of this moderate rate increase and the fact that 2013 results reflect a full year of the higher monthly household ambulance charge and transport rate, overall revenue derived from charges for services increased significantly within this activity.

Charges for services in the building safety business-type activity decreased by 29 percent in 2013 as a result of a significant decrease in the valuation of building permits issued during the year. The number of building permits issued in 2013 actually increased by approximately 4 percent, however the valuation of those permits decreased by nearly 43 percent. This was primarily attributable to the issuance of permits for high value projects in 2012 including a new \$63 million hospital facility and a large multi-family and senior living complex in the city's Southridge area. Without similar projects in 2013, the overall valuation of permits issued by the city's building safety activity declined.

Revenue from charges for services in the city's stormwater business-type activity increased by 11 percent in 2013, which was attributable to a modification to the city's monthly stormwater utility charge that was implemented in early 2012. A rate increase was required at that time based on a state law that disallowed the operating transfer that had previously been provided to the stormwater business-type activity from the water and sewer business-type activity. Until 2012, the city's water and sewer business-type activity had provided an operating contribution to the stormwater business-type activity to cover costs of the city's stormwater program that were paid by the water and sewer business-type activity prior to the city forming a separate stormwater utility. In addition to this rate modification in 2012, the stormwater activity's rates are also increased each year by the percentage change in the consumer price index under the city's municipal code, which resulted in an additional 2.2 percent increase to the monthly stormwater utility charge in 2013.

Charges for services for the city's golf course business-type activity decreased by 10 percent in 2013. This decrease was primarily the result of a 6 percent decrease in the number of rounds played at the course during the year and a corresponding decline in food and beverage and ancillary revenues that are generated by golfers at the course.

Finally, revenues generated from charges for services decreased by 16 percent within the coliseum business-type activity in 2013, which was largely attributable to the loss of facility rental charges and other ancillary revenue due to a reduction in the number of events held at the facilities, including fewer play-off games for the hockey team that is one of the anchor tenants for the facilities.

- ◆ Capital grants and contributions for business-type activities increased by approximately 7 percent, or \$228,000, in 2013. The water and sewer and stormwater business-type activities account for the majority of capital grants and contributions revenue within the city's business-type activities as a result of developer contributions in the form of water and sewer and stormwater infrastructure associated with new commercial and residential development. Additionally, the current year's increase in this category was attributable to capital grants received from the Washington State Department of Ecology within both the water and sewer and stormwater business-type activities.
- ◆ Business-type expenses increased by approximately \$359,000 overall in 2013 when compared to 2012, which equates to an increase of just over 1 percent.

Expenses for the city's water and sewer business-type activity increased by approximately \$500,000 in 2013, which equated to an increase of 3 percent. This change was primarily attributable to increases in maintenance and operating costs of the activity including personnel and other variable costs associated with the production of potable water.

Expenses for the medical services business-type activity increased during 2013 by approximately \$109,000, or 3 percent. The primary factor in this overall change was an increase in personnel costs associated with firefighter/paramedic personnel including an increase to negotiated wages, medical benefits and overtime experienced during the year.

Expenses for the building safety business-type activity increased by approximately \$101,000, or 10 percent, in 2013. This change was attributable to an increase in personnel costs for the activity for the year including salaries, medical benefits and retirement costs. Additionally, a portion of the increase was attributable to costs incurred for the use of contract inspectors that were required to assist full-time staff with inspections associated with significant building projects that were underway during the year.

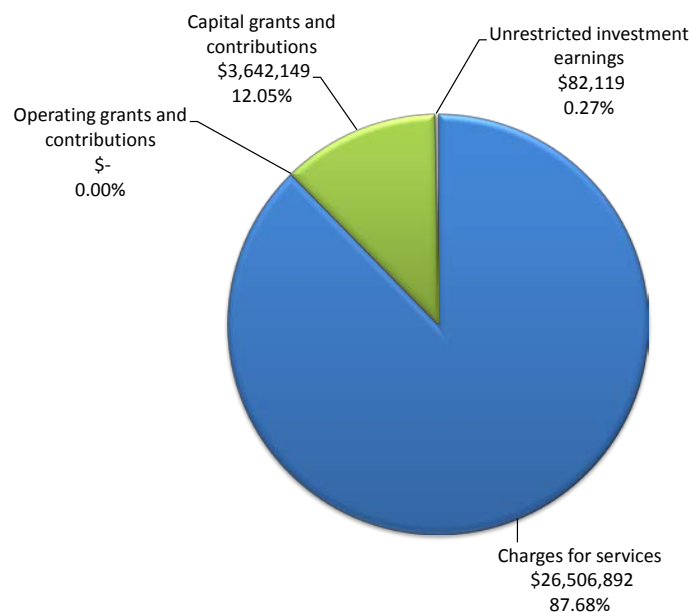
Expenses of the stormwater business-type activity increased by approximately \$7,000, or 1 percent, in 2013. This overall change was primarily attributable to increases in maintenance and operating costs of the activity, including personnel expenses and other expenses associated with the city's compliance with its state stormwater capacity permit.

Expenses of the golf course business-type activity increased by approximately \$14,000, or 5 percent, in 2013. This overall change was attributable to moderate increases in personnel expenses for the course as well as an increase to the management fee paid by the city to a third party to oversee operations of the course, which increases annually based on the percentage change in the consumer price index under the terms of the management agreement.

Lastly, expenses for the coliseum business-type activity decreased by approximately \$372,000, or 9 percent, during 2013. This overall decrease was primarily the result of cost savings measures and reductions to variable expenses implemented in an effort to offset a reduction in revenue generated from events at the facility. The activity experienced reductions in personnel costs, event expenses and service and operations expenses for the year.

The following graph provides an illustration of the different components of the City of Kennewick's revenues generated from business-type activities. Charges for services, which include items such as charges for water and sewer services and ambulance services provided, are by far the largest source of revenues for business-type activities, making up 87.7 percent of total revenues.

Revenue by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of December 31, 2013, the City of Kennewick's governmental funds reported combined ending fund balances of \$13,007,791, a decrease of \$1,686,561 in comparison with the prior year. Approximately 18 percent of this total amount, \$2,395,467, represents unassigned (undesignated) fund balance. The remaining fund balance within governmental funds is either assigned by City Council's intent for a specific purpose (\$4,147,550), committed for specific purposes pursuant to constraints imposed by a formal action of the city's highest level of decision making authority (\$5,845,814), or restricted externally for a specific purpose (\$618,960).

The general fund is the chief operating fund of the City of Kennewick. As of December 31, 2013, unassigned fund balance in the general fund was \$2,891,427. A common measure of the general fund's liquidity is to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 6.3 percent of total general fund expenditures for the year ended December 31, 2013, as compared to 7.5 percent for the year ended December 31, 2012. It should be noted that the city also maintains a cash reserve for unanticipated changes in revenues and expenditures, which is reported as committed fund balance in the general fund and was increased by approximately \$21,000 to \$2.68 million in 2013 based on a Kennewick City Council budget policy to increase the reserve each year by the annual change in the consumer price index.

The total fund balances reported for the City of Kennewick's general fund decreased by \$407,619 during 2013. Key factors in the change are as follows:

- ◆ Tax revenues are by far the largest funding source for the City of Kennewick's general fund, making up approximately 75 percent of the fund's total sources of revenue in 2013. In 2013, tax revenues reported in the general fund increased by approximately 5 percent overall when compared to 2012. This overall increase was attributable to increases in reported revenue from property, sales and utility taxes, which were partially offset by decreases in revenue reported in the general fund from gambling tax.

Property taxes allocated to the general fund increased by roughly 6 percent in 2013, which was primarily attributable to growth that occurred in the city during 2012 and increased the tax rolls for 2013. As explained in greater detail earlier in this report within the discussion of the statement of activities for governmental activities, the city added \$90.5 million to its assessed value for the 2013 levy from new construction. Additionally, the Kennewick City Council elected to utilize a portion of the city's banked capacity for the 2013 levy to provide funding for the city to hire 3 new police officer positions during the year. It should be noted that a portion of the city's property tax revenue is allocated to its street fund. In total, property tax revenue for both the general and street fund increased by approximately 3 percent.

Sales and use tax revenues reported in the general fund increased by 8 percent in 2013 overall. The city's general fund receives all of the regular and criminal justice sales and use tax received by the city, as well as a portion of the city's optional sales and use tax. Citywide, regular and optional sales and use tax revenue increased by 6 percent in 2013. This increase was heavily influenced by construction activity in the city during 2013, including a new hospital in the city's Southridge area. Additionally, the city experienced moderate growth during the year from its base sales and use tax and auto dealerships.

Utility tax revenues increased by 4 percent overall in 2013 when measured on a modified accrual basis. The city receives utility taxes from natural gas, garbage collection, cable television, telephone, electric, ambulance, stormwater and water/sewer services. The overall increase experienced in utility tax revenue in 2013 was attributable to increases from all utility tax sources, with the exception of telephone utility tax.

Utility tax generated from the sale of natural gas increased by 31 percent in 2013, despite an average rate decrease of approximately 7 percent by Cascade Natural Gas in November of 2012. The increase in natural gas utility tax instead reflects a significant increase in utility tax received from brokered sales of natural gas within the city.

The city receives utility tax for garbage services from Waste Management as they provide these services to Kennewick's citizens under a franchise agreement with the city. Utility tax receipts from garbage services increased by 3 percent in 2013, which reflects moderate growth in Waste Management's customer base and a minor rate increase based on the annual change in the consumer price index under the terms of their franchise agreement.

Utility tax generated from cable television services increased by 8 percent in 2013, primarily as a result of rate increases implemented by the primary local cable provider, coupled with growth in their customer base.

Utility tax revenue received from the sale of electricity, which is the city's largest source of utility tax, increased by 7 percent in 2013, which was attributable to deductions taken from the local electric utility's monthly utility tax payments in 2012 as part of a settlement agreement for overpaid taxes from prior periods. When factoring these deductions into the comparison of 2013 and 2012 electric utility tax revenue, there was effectively no real change between the two years, which is consistent with the fact that the local electric utility did not implement any rate changes during 2013.

Water and sewer utility tax revenue increased by 5 percent in 2013 due to a 2.2 percent increase implemented on water and sewer rates coupled with moderate growth in the utility's customer base and overall water consumption.

The increases in utility tax revenue outlined above were offset by an 8 percent reduction in utility tax generated from telephone services in 2013. The reduction experienced for this revenue source in 2013 follows similar decreases in each of the three preceding years. As explained earlier in this report, this trend is attributable to several factors, including the loss of taxable revenue resulting from the expansion of non-taxable data services by cellular phone service providers, bundling of services by providers at reduced rates for each of the bundled services, and a reduction of taxable revenue from land lines as a larger number of individuals are eliminating their home phone in favor of using their cell phone as their primary phone.

Finally, gambling tax revenues decreased by 18 percent in 2013, primarily as the result of the closure of one of the city's larger casinos in the second half of 2012 and the impact this closure had on taxable gambling activity in the city for a full year in 2013.

- ◆ Intergovernmental revenues decreased by approximately 9 percent in 2013. The most significant factor in this overall decrease was a reduction in state-shared liquor excise tax received by the city during the year. During the 2012 legislative session, the Washington State Legislature eliminated liquor excise tax distributions to cities for one full year from July of 2012 through June of 2013 and reallocated the revenue to the State's general fund to help balance its 2011-2013 biennial budget. Based on the timing of liquor excise tax distributions, this would have left the city with only one of its normal four distributions in 2013. Then, during the 2013 legislative session, legislation was passed that reduced future liquor excise tax

payments for cities by 50 percent beginning in July of 2013 and again diverted that revenue to the State's general fund through June of 2015.

- ◆ Revenue received for fines and forfeitures increased by 6 percent in 2013. This overall increase was the result of growth in traffic penalties and non-traffic misdemeanors.
- ◆ Transfers to the general fund decreased by 13 percent, or approximately \$358,000, in 2013. Beginning in 2013, this revenue category consisted entirely of ongoing transfers from the public safety fund of revenues collected from a voted 2.5 percent utility tax on sales of natural gas, telephone and electricity, which originally was utilized to fund 32 police and fire positions that were added when the tax was enacted and continues to fund a portion of those positions today. As outlined earlier in greater detail, utility tax revenue derived from both electric and natural gas sales increased in 2013, while telephone utility tax revenue declined significantly. The net result of these trends was a 1 percent overall increase in transfers to the general fund for the year from these sources.

Prior to 2013, this revenue category also included transfers from the city's business-type activities (utility funds) for reimbursement of each activity's share of personnel costs for a pool of administrative personnel that were paid from the general fund. Beginning in 2013, the city eliminated these transfers and instead now directly charges each activity for its share of these costs. This change was the primary factor in the reduction in transfers to the general fund for 2013.

- ◆ Expenditures reported in the general fund increased by approximately \$1,864,000, or 4 percent, in 2013. Major factors for this increase follow.

First, as explained in more detail earlier in this report within the analysis of the statement of activities for governmental activities, expenditures for salaries and wages increased as a result of negotiated pay increases for the city's union personnel and pay for performance awards to its non-represented employees. In 2013, the general fund experienced an increase of 4 percent in this expenditure category, or approximately \$881,000.

As also outlined earlier in this report, expenditures for personnel benefits increased during 2013 as a result of an increase to the city's expenditures for medical insurance premiums and employer paid retirement contributions for members of the State's Public Employee Retirement System (PERS). Within the general fund, expenditures for benefits increased by 6 percent in 2013, or approximately \$446,000.

Expenditures for other services and charges increased by 5 percent in 2013, or approximately \$205,000. The overall increase in this expenditure category is attributable to several factors, with the largest single factor being an increase of approximately \$173,000 in annual maintenance costs within the general government function related to new software and other technology implemented by the city. It is important to note that the addition of new technology allows city staff to work more efficiently and effectively, which has made it possible for the city to accommodate growth in Kennewick and maintain service levels without the addition of new staffing resources, or even in some cases, with a reduction of staff resources.

Expenditures for intergovernmental services increased by 2 percent within the general fund in 2013, or approximately \$112,000. This overall increase was primarily attributable to increases in the city's costs within its public safety function for district court and jail services, offset by an overall reduction in the city's cost for dispatch services.

Finally, transfers out, which is another major expenditure of the general fund, decreased by 14 percent in 2013, or approximately \$314,000, as a result of several factors.

The largest single factor in the overall decrease in transfers out in 2013 was a reduction of \$475,000 in the amount transferred to the medical services business-type activity (ambulance utility fund). In July of 2012, the city implemented an increase to its monthly household ambulance charge in order to fully enterprise the city's ambulance utility at that time. In 2013, the city completed its first full year with the new rate structure, which resulted in the elimination of any general fund contribution (transfer) to this utility.

During 2013, transfers out to the coliseum business-type activity (Toyota Center & Arena) for operations decreased by \$50,000. Beginning in 2013, the city's budget policy was modified to include an additional \$50,000 transfer from its lodging tax fund to support the operations of the activity using available lodging tax proceeds. As a result, the city was able to reduce the amount it would otherwise have transferred out from the general fund by this same amount.

The reductions in transfers out described above were partially offset by increases in transfers out of \$50,000 and \$20,000 to the risk management and columbia park golf course funds, respectively, to support increased operational needs for both.

Finally, transfers to the capital improvement fund increased by slightly more than \$162,000 in 2013 for the general fund's contribution towards the replacement of citywide information technology (IT) infrastructure and computers during the year.

The community development fund has a total fund balance of \$314,540, all of which is restricted for grant related projects. Total fund balance increased by \$253,775 for the year ended December 31, 2013 in the fund. Although the purpose of the community development fund does not necessarily dictate that the fund should accumulate a larger fund balance, this increase may be interpreted to indicate a moderate improvement to the fund's overall financial condition.

The capital improvement fund has a total fund balance of \$7,052,296, of which \$1,987,851 is committed for advances to other funds in previous years and \$1,182,433 is committed to pay for park improvements. Overall fund balance decreased by \$116,593 in 2013. Assigned fund balance in the capital improvement fund, which represents fund balance available for the purpose of the fund, increased by \$629,687 during 2013, which may be interpreted to indicate that the fund's financial condition improved slightly during the year.

The urban arterial fund has a total fund balance of \$180,876, all of which is assigned fund balance, or fund balance available for the purpose of the fund. For the year ended December 31, 2013, the urban arterial fund's fund balance decreased by \$743,282. Due to the fact that the urban arterial street fund's primary purpose is to account for capital projects that are funded with state and federal grants that are generally paid on a reimbursement-type basis in conjunction with a city match, this change in fund balance represents the spending of the city match that had previously been accumulated for projects in prior periods, rather than a true decline in the financial condition of the fund.

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

Total net position of the city's enterprise (business-type) funds was \$139,427,466 as of December 31, 2013, which was an increase of \$5,867,406 for the year. Of the total net position for enterprise funds, \$131,571,448 represented a net investment in capital assets and \$1,897,039 was restricted for capital projects and debt service, leaving unrestricted net position of \$5,958,979. The unrestricted net position for

enterprise (business-type) funds as a whole is significantly reduced by a deficit in the unrestricted net position of the coliseum fund. This deficit is the result of a decision by the city to utilize an interfund loan to acquire its coliseum facility, which results in the interfund debt being included in the calculation of unrestricted net position, as opposed to being included in the calculation of the net position category of net investment in capital assets.

The city's water and sewer, coliseum and medical services funds, which are its major enterprise funds, had total net position of \$121,063,416, \$5,864,583 and \$200,382, respectively, as of December 31, 2013. The water and sewer fund's net position consists of \$110,802,983 in net investment in capital assets, \$1,897,039 in restricted net position for capital projects and debt service, and \$8,363,394 in unrestricted net position. The coliseum fund's net position consists of \$9,462,747 in net investment in capital assets and a deficit of \$3,598,164 in unrestricted net position. And finally, the medical services fund's net position consists of \$20,751 in net investment in capital assets and \$179,631 in unrestricted net position. For each of these major enterprise funds, there were no significant restrictions or other commitments that will impact the availability of fund resources for future use.

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

General Fund Budgetary Highlights

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

- ◆ An increase of \$520,047 to the beginning fund balance for the general fund for 2013 relative to the amount estimated when the 2013/2014 biennial budget was adopted in 2012. This adjustment was accompanied by an increase in budgeted expenditures of \$84,282 for items that were expected to be expended in 2012, but were actually paid for in 2013.
- ◆ An increase of \$57,000 in donation revenue with a corresponding increase of expenditures for a donation received from a local organization for the purchase of an avatar robot for the Tri-Cities Regional SWAT team.
- ◆ An increase of \$88,208 in grant proceeds from the Federal Emergency Management Agency (FEMA) to purchase protective clothing for fire personnel.
- ◆ An increase of \$48,920 to appropriate for an information technology (IT) strategic plan being prepared for the city.
- ◆ To appropriate for the city's contribution of \$62,300 towards a regional public facilities district (PFD) for the Tri-Cities that was formed to evaluate regional projects that could be funded with a voted sales tax and recommend the highest priority project to place on the ballot.
- ◆ An increase of \$162,046 in transfers out to the capital improvement fund for the general fund's contribution towards citywide technology improvements and PC upgrades.

At the close of 2013, general fund revenues were 49.1 percent of the adjusted budget for the 2013/2014 biennium. Actual expenditures in the general fund for the year were 49.2 percent of the adjusted biennial budget.

The city's general fund had an unassigned fund balance of \$2,891,427 as of December 31, 2013, which was higher than the budgeted ending fund balance for the 2013/2014 biennium and exceeded the city's budgetary policy to maintain an ending fund balance of at least 5 percent of budgeted annual operating expenditures. Additionally, the city also continues to maintain a cash reserve balance for revenue stabilization

and contingencies with a balance of approximately \$2.68 million. Together these balances represented 11.9 percent of budgeted annual operating funds expenditures.

Capital Assets and Debt Administration

Capital Assets:

The City of Kennewick's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to approximately \$358,493,000 (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure such as roads and bridges, equipment, and construction in progress.

As the following table illustrates, the City of Kennewick's net capital assets increased by just under 3 percent for the year (a 2 percent increase in governmental activities and a 3 percent increase in business-type activities).

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

	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 82,563	\$ 79,402	\$ 2,988	\$ 2,988	\$ 85,551	\$ 82,390
Buildings	30,857	31,544	144,592	142,462	175,449	174,006
Improvements other than buildings	13,679	15,143	-	-	13,679	15,143
Infrastructure	55,435	51,734	-	-	55,435	51,734
Equipment	8,703	7,370	3,617	3,426	12,320	10,796
Construction in progress	10,615	12,155	5,415	3,201	16,030	15,356
Intangibles	-	-	29	29	29	29
Total capital assets	\$ 201,852	\$ 197,348	\$ 156,641	\$ 152,106	\$ 358,493	\$ 349,454

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

- ◆ A variety of major street construction projects across the city were completed or were in progress at the close of the year, including a \$5.7 million project to construct Steptoe Street from Center Parkway to 4th Avenue, which is the second phase of a project that will link the city's retail district to the southern growth area of the city, and a \$5.1 million project to connect State Route 397 to 27th Street via Olympia Street in the southeastern area of the city. Construction in progress for these projects and various other street projects was approximately \$9.6 million as of December 31, 2013.
- ◆ Several projects were completed in 2013 in the city's Southridge Local Revitalization Area (LRA) including Ridgeline Drive from US395 to 36th Avenue, which were funded with bonds issued by the city in 2010 under the state's Local Revitalization Financing (LRF) program.
- ◆ Within the city's water and sewer business-type activity, a significant amount of water and sewer infrastructure associated with the city's major street construction projects was in progress or completed during 2013. Additionally, approximately \$1.1 million was expended during the year towards the construction of a new \$5.1 million reservoir in zone 4 of the city.
- ◆ The city's coliseum business-type activity expended approximately \$854,000 for various capital improvements to the city's coliseum and ice arena facilities during 2013, including \$379,000 for the refurbishment of the marquee sign for the facilities.

Additional information about the city's capital assets can be found in note 6.

Long-term debt:

City of Kennewick
Outstanding Debt
As of December 31,

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 25,480,000	\$ 27,475,000	\$ -	\$ -	\$ 25,480,000	\$ 27,475,000
Notes and loans	2,923,184	3,577,687	25,069,409	27,029,976	27,992,593	30,607,663
Capital leases	1,181,136	-	-	-	1,181,136	-
	<u>\$ 29,584,320</u>	<u>\$ 31,052,687</u>	<u>\$ 25,069,409</u>	<u>\$ 27,029,976</u>	<u>\$ 54,653,729</u>	<u>\$ 58,082,663</u>

The City of Kennewick's total debt decreased by \$3,428,934 (6 percent) during the year ended December 31, 2013. Activity within both governmental and business-type activities during 2013 primarily consisted of scheduled payments on the city's existing debt obligations. Additionally, a capital lease of \$1.18 million was utilized to finance the replacement of the city's police fleet and mobile data terminals (MDT's) for these vehicles.

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

State statutes limit the amount of general obligation debt the city can issue to a percentage of the total assessed value of the taxable property of the city. The city is allowed to issue up to 1.5 percent of total assessed value for non-voted debt and 2.5 percent for voted debt. In addition, the city may issue up to 7.5 percent of assessed value for voted debt in excess of the 2.5 percent limit if it is for utilities, parks or open space purposes. As of December 31, 2013, the city had \$52.7 million in non-voted capacity and \$106.2 million in voted capacity.

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

Economic Factors and Next Year's Budgets and Rates

As mentioned previously, the City of Kennewick adopts a biennial budget. The close of the year ended December 31, 2013 marks the mid-point of the city's 2013/2014 budget cycle. The local economy for the City of Kennewick and Tri-Cities region as a whole continued to be relatively healthy during 2013 despite a number of challenges including reductions to employment levels at the Hanford site, which is the largest employer for the region. Several financial challenges remain as the city completes its 2013/2014 biennium and begins preparing for its next biennium. The following are a few of the key factors that may impact the city's governmental activities in 2014 and beyond:

- ◆ The City of Kennewick and the Tri-Cities as a whole was not as severely impacted by the recent national recession as other areas across the nation and State of Washington as a result of federal funding received for the Hanford area clean-up. However, since its peak in 2011, non-farm industry employment has declined by approximately 3,400 jobs, primarily as a result of the completion of projects funded with one-time federal stimulus funding. It will be imperative for the city to closely monitor the federal budget for the Hanford site as well as its own economic trends for a potential downturn in the local economy. In particular, trends in sales, utility and property tax receipts will be

critical to monitor due to the city's dependence on these revenue sources, all of which are directly tied to the continued growth of the community.

- ◆ Like many states across the nation, the State of Washington has faced severe budget deficits over the past 5-6 years. In order to balance its 2013-2015 biennial budget, the state made several budget cuts that dramatically impacted all Washington cities, including Kennewick. Perhaps the item with the most significant impact to the City of Kennewick was the elimination of the Public Works Trust Fund (PWTF) low-interest loan program, which the city had anticipated using to finance just under \$13 million in critical street and other infrastructure improvements in its growing southern area. Without the PWTF program, the city has been forced to explore more costly financing alternatives and ultimately defer or eliminate important capital projects to ensure that adequate funding is available for the completion of the highest priority projects for the city. Additionally, the state reduced state-shared liquor excise tax revenues historically provided to cities by 50 percent beginning in July of 2013 and extending through at least the remainder of the state's 2013-2015 biennium. The city estimates that it will lose approximately \$200,000 per year as a result of this change alone, which has a significant operational impact. As the state prepares its next biennial budget during the 2015 legislative session, the city also remains extremely vulnerable to further state program cuts, fee increases, unfunded mandates and further reductions in revenue sharing.
- ◆ The city continues to work in partnership with the State of Washington and Benton County to expand its urban growth area (UGA) south of Interstate 82, which would allow the city to add approximately 1,260 acres of much needed industrial land within its boundaries. The addition of this industrial property would provide for significant economic development and job creation opportunities for the city. Most recently, the city received approval for its UGA expansion from the Benton County Commissioners and barring an appeal, the boundary expansion will proceed forward in 2014. If the city is successful in its efforts to expand its UGA to include this industrial land, a significant investment will be required to provide the appropriate infrastructure and other necessary facilities required to serve the area.

The following are some factors that may impact the city's business-type activities in 2014 and beyond:

- The city's stormwater business-type activity is currently in the midst of a study to determine its compliance with current state and federal stormwater regulations associated with its stormwater capacity permit, as well as future additional requirements from the State Department of Ecology (DOE) associated with the utility's next permit. If the study determines that the city is deficient in meeting state and federal requirements for its stormwater program, the activity's monthly stormwater fee structure may have to be reevaluated for potential increases.

A copy of the City of Kennewick's most recent budget document for the 2013/2014 biennium is available upon request and can also be accessed on the city's web site at <http://www.go2kennewick.com>.

Requests for Information

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

Statement of Net Position
December 31, 2013 (with comparative totals for 2012)

	Primary Government				Component Unit		
	Governmental Activities	Business-type Activities	Totals		Public Facilities District		
			2013	2012	2013	2012	
ASSETS							
Current assets:							
Equity in pooled cash & investments	\$ 15,307,430	\$ 6,474,497	\$ 21,781,927	\$ 23,258,183	\$ 2,184,254	\$ 2,023,761	
Receivables, net	9,250,237	3,101,115	12,351,352	11,637,265	153,058	555,444	
Due from primary government	-	-	-	-	48,958	-	
Internal balances	8,727,028	(8,727,028)	-	-	-	-	
Inventories	220,544	349,548	570,092	545,714	33,791	30,066	
Prepaid items	-	72,155	72,155	131,552	37,219	38,265	
Restricted equity in pooled cash & investments	-	-	-	546,464	-	-	
Total current assets	33,505,239	1,270,287	34,775,526	36,119,178	2,457,280	2,647,536	
Noncurrent assets:							
Restricted equity in pooled cash & investments	1,379,823	2,499,630	3,879,453	4,425,677	-	-	
Net pension obligation	93,641	-	93,641	36,958	-	-	
Investment in joint ventures	4,485,091	-	4,485,091	4,707,407	-	-	
Capital assets:							
Land and construction in progress	93,178,433	8,432,084	101,610,517	97,775,159	-	-	
Depreciable capital assets - net	108,674,010	148,208,773	256,882,783	251,678,706	12,869,317	13,214,949	
Total noncurrent assets	207,810,998	159,140,487	366,951,485	358,623,907	12,869,317	13,214,949	
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	464,533	-	464,533	525,675	422,069	460,732	
Total deferred outflows of resources	464,533	-	464,533	525,675	422,069	460,732	
Total assets and deferred outflows of resources	\$ 241,780,770	\$ 160,410,774	\$ 402,191,544	\$ 395,268,760	\$ 15,748,666	\$ 16,323,217	
LIABILITIES							
Current liabilities:							
Accounts payable and accrued items	\$ 2,507,503	\$ 1,257,799	\$ 3,765,302	\$ 3,398,102	\$ 112,279	\$ 126,838	
Due to component unit	-	48,958	48,958	-	-	-	
Liabilities payable from restricted assets	-	-	-	546,464	-	-	
Unearned revenue	244,510	469,849	714,359	336,081	64,288	135,205	
Other current liabilities	316,380	25,856	342,236	124,853	-	-	
Current portion of long-term obligations	4,417,827	3,318,267	7,736,094	7,248,974	640,000	215,000	
Total current liabilities	7,486,220	5,120,729	12,606,949	11,654,474	816,567	477,043	
Noncurrent liabilities:							
Landfill closure costs payable from restricted assets	153,338	-	153,338	202,275	-	-	
Net post employment benefit obligation	1,010,801	-	1,010,801	695,923	-	-	
Noncurrent portion of long-term obligations	29,405,215	23,093,814	52,499,029	56,364,333	12,592,421	13,277,175	
Total noncurrent liabilities	30,569,354	23,093,814	53,663,168	57,262,531	12,592,421	13,277,175	
Total liabilities	38,055,574	28,214,543	66,270,117	68,917,005	13,408,988	13,754,218	
NET POSITION							
Net investment in capital assets	172,104,152	131,571,448	303,675,600	291,794,497	58,965	183,506	
Restricted for:							
Capital projects	1,363,309	737,393	2,100,702	2,716,769	-	-	
Debt service	38,804	1,159,646	1,198,450	1,197,148	-	-	
Grant programs	3,190,896	-	3,190,896	3,243,904	-	-	
Cash reserve	2,675,500	-	2,675,500	2,654,500	-	-	
Unrestricted (deficit)	24,352,535	(1,272,256)	23,080,279	24,744,937	2,280,713	2,385,493	
Total net position	203,725,196	132,196,231	335,921,427	326,351,755	2,339,678	2,568,999	
Total liabilities and net position	\$ 241,780,770	\$ 160,410,774	\$ 402,191,544	\$ 395,268,760	\$ 15,748,666	\$ 16,323,217	

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

Statement of Activities
For the Year Ended December 31, 2013 (with comparative totals for 2012)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		Public Facilities District				
			Governmental Activities	Business-type Activities		Totals	2013	2012	2013	2012		
Primary government:												
Governmental activities:												
General government	\$ 7,891,898	\$ 1,576,441	\$ 1,825,753	\$ -	\$ (4,489,704)	\$ -	\$ (4,489,704)	\$ (3,521,295)	\$ -	\$ -	\$ -	-
Public safety	27,905,749	2,206,897	195,176	-	(25,503,676)	-	(25,503,676)	(24,755,472)	-	-	-	-
Transportation	10,206,856	1,471,203	2,070,411	6,466,596	(198,646)	-	(198,646)	32,162	-	-	-	-
Physical environment	215,621	419,911	-	-	204,290	-	204,290	5,841	-	-	-	-
Economic environment	1,930,526	109,216	735,684	-	(1,085,626)	-	(1,085,626)	(1,145,234)	-	-	-	-
Social services	205,718	-	-	-	(205,718)	-	(205,718)	(58,396)	-	-	-	-
Culture and recreation	6,413,809	578,192	30,650	-	(5,804,967)	-	(5,804,967)	(5,029,735)	-	-	-	-
Interest on long-term debt	1,337,902	-	-	-	(1,337,902)	-	(1,337,902)	(1,413,563)	-	-	-	-
Total governmental activities	56,108,079	6,361,860	4,857,674	6,466,596	(38,421,949)	-	(38,421,949)	(35,885,692)	-	-	-	-
Business-type activities:												
Water and Sewer	15,205,134	16,892,550	-	3,297,566	-	4,984,982	4,984,982	4,422,598	-	-	-	-
Medical Services	4,352,832	4,250,667	-	15,722	-	(86,443)	(86,443)	(658,140)	-	-	-	-
Building Safety	1,106,334	1,117,704	-	-	-	11,370	11,370	578,700	-	-	-	-
Stormwater	1,409,865	1,220,894	-	328,861	-	139,890	139,890	390,965	-	-	-	-
Golf Course	308,301	189,947	-	-	-	(118,354)	(118,354)	(82,997)	-	-	-	-
Coliseum	3,799,767	2,835,130	-	-	-	(964,637)	(964,637)	(811,858)	-	-	-	-
Total business-type activities	26,182,233	26,506,892	-	3,642,149	-	3,966,808	3,966,808	3,839,268	-	-	-	-
Total primary government	\$ 82,290,312	\$ 32,868,752	\$ 4,857,674	\$ 10,108,745	\$ (38,421,949)	\$ 3,966,808	\$ (34,455,141)	\$ (32,046,424)	\$ -	\$ -	\$ -	-
Component unit:												
Public Facilities District	3,448,429	2,046,035	90,535	-	-	-	-	-	-	(1,311,859)	(1,130,367)	(1,130,367)
Total component unit	\$ 3,448,429	\$ 2,046,035	\$ 90,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(1,311,859)	\$ (1,130,367)	(1,130,367)
General revenues:												
Property taxes					\$ 11,327,879	\$ -	\$ 11,327,879	\$ 10,970,033	\$ -	\$ -	\$ -	-
Sales taxes					16,989,376	-	16,989,376	16,228,417	1,079,179	1,064,673	-	-
Utility taxes					11,182,612	-	11,182,612	10,781,215	-	-	-	-
Real estate excise tax					1,566,341	-	1,566,341	1,353,345	-	-	-	-
Gambling excise tax					726,917	-	726,917	884,366	-	-	-	-
Lodging tax					1,222,104	-	1,222,104	1,207,325	-	-	-	-
Other taxes					257,892	-	257,892	345,575	-	-	-	-
Unrestricted investment earnings					99,617	82,119	181,736	166,671	3,359	4,736	-	-
Gain on sale of capital assets					569,956	-	569,956	(148,653)	-	-	-	-
Transfers					(1,120,661)	-	-	-	-	-	-	-
Total general revenues and transfers					42,822,033	1,202,780	44,024,813	41,788,294	1,082,538	1,069,409	-	-
Change in net position					4,400,084	5,169,588	9,569,672	9,741,870	(229,321)	(60,958)	(60,958)	-
Net position - beginning					199,325,112	127,026,643	326,351,755	316,609,885	2,568,999	2,629,957	2,629,957	-
Net position - ending					\$ 203,725,196	\$ 132,196,231	\$ 335,921,427	\$ 326,351,755	\$ 2,339,678	\$ 2,568,999	\$ 2,568,999	-

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

Balance Sheet
Governmental Funds
December 31, 2013 (with comparative totals for 2012)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
ASSETS				
Equity in pooled cash & investments	\$ 6,230,857	\$ 243,159	\$ 4,365,677	\$ 65,260
Receivables (net of allowance for uncollectibles)	3,648,466	2,822,783	1,015,529	-
Due from other funds	366,262	-	1,987,854	-
Due from other governments	12,189	84,184	6,803	663,067
Restricted equity in pooled cash & investments	-	44,774	1,181,794	-
Total assets	\$ 10,257,774	\$ 3,194,900	\$ 8,557,657	\$ 728,327
LIABILITIES				
Accounts payable	\$ 1,037,514	\$ 3,156	\$ 599,218	\$ 547,451
Due to other funds	-	-	-	-
Due to other governments	283	848	-	-
Deposits payable	316,380	-	-	-
Unearned revenue	224,571	-	19,939	-
Liabilities payable from restricted assets	-	-	-	-
Total liabilities	1,578,748	4,004	619,157	547,451
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	3,112,099	2,876,356	886,204	-
Total deferred inflows of resources	3,112,099	2,876,356	886,204	-
FUND BALANCES				
Restricted				
Debt service	-	-	-	-
Capital - bond issue	-	-	-	-
Community development	-	314,540	-	-
Special revenue	-	-	-	-
Committed				
Coliseum loan	-	-	1,987,851	-
Park reserves	-	-	1,182,433	-
Debt service	-	-	-	-
Cash reserve	2,675,500	-	-	-
Assigned				
Capital projects	-	-	3,882,012	180,876
Debt service	-	-	-	-
Special revenue	-	-	-	-
Unassigned	2,891,427	-	-	-
Total fund balances	5,566,927	314,540	7,052,296	180,876
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 10,257,774	\$ 3,194,900	\$ 8,557,657	\$ 728,327

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2013	2012
\$ 461,213	\$ 11,366,166	\$ 10,782,713
536,327	8,023,105	8,299,984
-	2,354,116	2,308,028
390,865	1,157,108	1,658,884
-	1,226,568	2,245,215
<u>\$ 1,388,405</u>	<u>\$ 24,127,063</u>	<u>\$ 25,294,824</u>
\$ 105,921	\$ 2,293,260	\$ 1,909,758
858,321	858,321	44,586
1,202	2,333	24,893
-	316,380	103,530
-	244,510	216,762
-	-	546,464
<u>965,444</u>	<u>3,714,804</u>	<u>2,845,993</u>
529,809	7,404,468	7,754,479
<u>529,809</u>	<u>7,404,468</u>	<u>7,754,479</u>
3,972	3,972	3,003
-	-	523,713
-	314,540	60,765
300,448	300,448	344,843
-	1,987,851	2,276,214
-	1,182,433	1,116,637
30	30	29
-	2,675,500	2,654,500
-	4,062,888	4,176,483
36,403	36,403	84,105
48,259	48,259	146,789
(495,960)	2,395,467	3,307,271
<u>(106,848)</u>	<u>13,007,791</u>	<u>14,694,352</u>
<u>\$ 1,388,405</u>	<u>\$ 24,127,063</u>	<u>\$ 25,294,824</u>

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Position - Governmental Activities
December 31, 2013

Total governmental fund balances	\$ 13,007,791
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	199,286,661
Other long-term assets are earned in the upcoming period but not available to pay for current period expenditures.	7,404,468
Internal service funds are used by management to charge the costs of fleet management, central stores and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	17,112,751
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(33,086,475)</u>
Net position of governmental activities	<u>\$ 203,725,196</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013 (with comparative totals for 2012)

	General Fund	Community Development Fund	Capital Improvement Fund	Urban Arterial Street Fund
REVENUES				
Taxes:				
Property	\$ 10,658,861	\$ -	\$ 59,534	\$ -
Sales	13,278,431	-	3,633,093	-
Utility	8,763,269	-	-	-
Real estate excise tax	-	-	1,566,341	-
Gambling tax	726,917	-	-	-
Lodging tax	-	-	-	-
Other	431,680	-	-	-
Licenses and permits	568,552	-	-	-
Intergovernmental	1,794,514	1,042,467	45,222	1,650,990
Charges for services	4,874,476	-	71,042	-
Fines and forfeitures	1,266,500	-	-	-
Investment earnings	21,019	333	34,787	-
Special assessments	-	-	-	-
Rents and leases	251,728	-	23,109	-
Miscellaneous revenues	304,683	-	195,134	-
Total revenues	42,940,630	1,042,800	5,628,262	1,650,990
EXPENDITURES				
Current :				
General government	8,771,408	135,876	-	-
Public safety	26,633,998	-	-	-
Transportation	2,051,822	-	-	420,601
Social services	14,519	191,199	-	-
Physical environment	253,144	-	-	-
Economic environment	1,049,790	195,701	-	-
Culture and recreation	5,094,678	33,700	-	-
Debt service:				
Principal	-	-	599,318	-
Interest/issue costs	-	-	35,992	-
Capital outlay:				
General government	7,364	-	838,521	-
Public safety	65,204	-	-	-
Transportation	-	-	889,309	3,171,676
Physical environment	-	-	-	-
Culture and recreation	-	-	-	-
Total expenditures	43,941,927	556,476	2,363,140	3,592,277
Excess (deficiency) of revenues over (under) expenditures	(1,001,297)	486,324	3,265,122	(1,941,287)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,500,724	-	1,601,766	1,198,005
Transfers out	(1,907,046)	(232,549)	(5,564,157)	-
Special assessment note issued	-	-	-	-
Disposition of capital assets	-	-	580,676	-
Total other financing sources (uses)	593,678	(232,549)	(3,381,715)	1,198,005
Net change in fund balances	(407,619)	253,775	(116,593)	(743,282)
Fund balances - beginning	5,974,546	60,765	7,168,889	924,158
Fund balances (deficit) - ending	\$ 5,566,927	\$ 314,540	\$ 7,052,296	\$ 180,876

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

Other Non-Major Governmental Funds	Total Governmental Funds	
	2013	2012
\$ 640,434	\$ 11,358,829	\$ 10,979,872
-	16,911,524	16,088,286
2,500,724	11,263,993	10,851,787
-	1,566,341	1,353,345
-	726,917	884,366
1,221,631	1,221,631	1,206,981
-	431,680	473,977
-	568,552	582,489
2,664,587	7,197,780	9,704,429
409,012	5,354,530	5,323,562
-	1,266,500	1,192,192
2,787	58,926	62,243
7,944	7,944	156,019
-	274,837	246,369
55,331	555,147	458,673
7,502,450	58,765,131	59,564,590
-	8,907,284	7,980,473
349,663	26,983,661	26,012,452
3,502,961	5,975,384	7,880,637
-	205,718	58,396
-	253,144	217,700
615,348	1,860,839	2,133,895
-	5,128,378	4,897,265
2,050,187	2,649,505	2,897,191
1,307,873	1,343,865	1,422,673
-	845,885	177,479
-	65,204	41,237
-	4,060,985	8,093,010
476,954	476,954	13,145
-	-	810,495
8,302,986	58,756,806	62,636,048
(800,536)	8,325	(3,071,458)
3,307,718	8,608,213	10,561,111
(3,180,024)	(10,883,775)	(13,035,121)
-	-	141,036
-	580,676	25,000
127,694	(1,694,886)	(2,307,974)
(672,842)	(1,686,561)	(5,379,432)
565,994	14,694,352	20,073,784
\$ (106,848)	\$ 13,007,791	\$ 14,694,352

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2013

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

Net change in fund balances - total governmental funds	\$ (1,686,561)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays	\$ 6,452,778	
Depreciation	(6,108,113)	
Cost of Assets Sold	<u>(977,799)</u>	(633,134)

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

2,649,505

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

3,881,322

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

(222,316)

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

(566,775)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

79,468

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

898,575

Change in net position of governmental activities

\$ 4,400,084

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

Statement of Net Position
Proprietary Funds
December 31, 2013 (with comparative totals for 2012)

	Business-Type Activities Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Service Fund	Other Non- Major Enterprise Funds
ASSETS				
Current assets:				
Equity in pooled cash & investments	\$ 5,484,457	\$ 621,103	\$ -	\$ 971,528
Receivables, net	1,049,288	90,282	688,106	81,626
Due from other funds	1,995,314	-	-	156,155
Due from other governments	1,183,389	-	-	8,424
Inventories	299,797	46,247	-	3,504
Prepaid items	-	71,611	-	544
Total current assets	10,012,245	829,243	688,106	1,221,781
Noncurrent assets:				
Restricted equity in pooled cash & investments	1,897,039	-	-	-
Capital assets:				
Land	1,734,272	1,282,641	-	-
Buildings and improvements	190,594,534	12,195,517	-	16,577,562
Equipment	6,722,365	3,819,933	62,312	40,700
Construction in progress	5,335,140	-	-	80,031
Less accumulated depreciation	(68,812,668)	(7,835,344)	(41,561)	(5,114,577)
Total noncurrent assets	137,470,682	9,462,747	20,751	11,583,716
Total Assets	\$ 147,482,927	\$ 10,291,990	\$ 708,857	\$ 12,805,497
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 699,414	\$ 403,518	\$ 67,417	\$ 71,691
Due to other funds	-	3,491,107	156,155	-
Due to component unit	-	48,958	-	-
Accrued interest payable	-	15,759	-	-
Compensated absences	246,812	-	180,278	97,357
Bonds, notes, and loans payable	2,734,070	-	-	59,750
Deposits payable	20,922	-	-	2,931
Other current liabilities	-	468,065	-	3,787
Total current liabilities	3,701,218	4,427,407	403,850	235,516
Noncurrent liabilities:				
Landfill closure costs payable from restricted assets	-	-	-	-
Compensated absences	78,786	-	104,625	31,897
Bonds, notes, and loans payable	22,036,590	-	-	238,999
Other noncurrent liabilities	602,917	-	-	-
Total noncurrent liabilities	22,718,293	-	104,625	270,896
Total Liabilities	26,419,511	4,427,407	508,475	506,412
NET POSITION				
Net investment in capital assets	110,802,983	9,462,747	20,751	11,284,967
Restricted for:				
Capital projects	737,393	-	-	-
Debt service	1,159,646	-	-	-
Unrestricted	8,363,394	(3,598,164)	179,631	1,014,118
Total Net Position	121,063,416	5,864,583	200,382	12,299,085
Total Liabilities and Net Position	\$ 147,482,927	\$ 10,291,990	\$ 708,857	\$ 12,805,497

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

Business-Type Activities Enterprise Funds		Governmental Activities	
Total Enterprise Funds		Internal Service Funds	
2013	2012	2013	2012
\$ 7,077,088	\$ 9,141,304	\$ 3,941,264	\$ 4,023,468
1,909,302	1,508,122	70,024	4,922
2,151,469	1,345,599	-	-
1,191,813	165,353	-	-
349,548	331,238	220,544	214,474
72,155	131,552	-	-
12,751,375	12,623,168	4,231,832	4,242,864
1,897,039	1,835,481	153,255	202,142
3,016,913	3,016,913	-	-
219,367,613	212,001,140	318,843	318,843
10,645,310	10,701,174	14,886,845	13,626,128
5,415,171	3,200,968	-	-
(81,804,150)	(76,814,204)	(8,154,813)	(8,150,479)
158,537,896	153,941,472	7,204,130	5,996,634
\$ 171,289,271	\$ 166,564,640	\$ 11,435,962	\$ 10,239,498
\$ 1,242,040	\$ 1,036,046	\$ 98,534	\$ 293,418
3,647,262	3,609,039	-	-
48,958	-	-	-
15,759	18,044	3,396	-
524,447	342,274	24,949	22,052
2,793,820	2,691,668	221,968	-
23,853	21,324	-	-
471,852	336,081	-	-
8,767,991	8,054,476	348,847	315,470
-	-	153,338	202,275
215,308	468,861	13,918	41,000
22,275,589	24,338,310	1,038,341	-
602,917	142,933	-	-
23,093,814	24,950,104	1,205,597	243,275
31,861,805	33,004,580	1,554,444	558,745
131,571,448	125,076,013	5,790,565	5,794,492
737,393	675,974	-	-
1,159,646	1,159,508	-	-
5,958,979	6,648,565	4,090,953	3,886,261
139,427,466	133,560,060	9,881,518	9,680,753
\$ 171,289,271	\$ 166,564,640	\$ 11,435,962	\$ 10,239,498

Reconciliation of the Statement of Net Position - Proprietary Funds
To the Government-Wide Statement of Net Position - Business-Type Activities
December 31, 2013

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

Net position - total enterprise funds	\$ 139,427,466
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The accumulated net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(7,231,235)</u>
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Net position of business-type activities	<u><u>\$ 132,196,231</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Business-type Activities- Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	Other Non-Major Enterprise Funds
Operating revenues:				
Charges for services	\$ 16,893,014	\$ 2,835,130	\$ 4,238,667	\$ 2,423,811
Other operating revenues	-	-	-	104,734
Total operating revenues	16,893,014	2,835,130	4,238,667	2,528,545
Operating expenses:				
Maintenance and operations	5,619,630	3,205,240	3,174,125	2,235,002
Administrative and general	2,496,562	-	853,367	104,708
Taxes	2,038,897	30,423	107,023	29,437
Depreciation	4,329,291	501,966	8,465	341,053
Total operating expenses	14,484,380	3,737,629	4,142,980	2,710,200
Operating income (loss)	2,408,634	(902,499)	95,687	(181,655)
Nonoperating revenues (expenses):				
Investment earnings	76,370	-	(139)	5,896
Interest expense	(375,426)	(33,804)	-	-
Miscellaneous nonoperating revenue (expenses)	-	-	-	-
Gain (loss) on disposition of assets	(464)	-	12,000	-
Total nonoperating revenue (expenses)	(299,520)	(33,804)	11,861	5,896
Income (loss) before contributions and transfers	2,109,114	(936,303)	107,548	(175,759)
Capital contributions	3,297,566	-	15,722	328,861
Transfers in	-	1,296,514	-	102,500
Transfers out	(99,957)	-	(86,972)	(91,428)
Change in net position	5,306,723	360,211	36,298	164,174
Total net position - beginning	115,756,693	5,504,372	164,084	12,134,911
Total net position - ending	\$ 121,063,416	\$ 5,864,583	\$ 200,382	\$ 12,299,085

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

Business-type Activities-			
Enterprise Funds		Governmental Activities	
Total Enterprise Funds		Total Internal Service	
2013	2012	2013	2012
\$ 26,390,622	\$ 26,065,169	\$ 2,750,820	\$ 2,600,842
104,734	183,041	-	-
26,495,356	26,248,210	2,750,820	2,600,842
14,233,997	14,344,888	2,859,721	2,727,621
3,454,637	3,013,724	13,104	12,500
2,205,780	2,101,021	-	-
5,180,775	5,092,555	834,434	957,096
25,075,189	24,552,188	3,707,259	3,697,217
1,420,167	1,696,022	(956,439)	(1,096,375)
82,127	66,950	17,930	16,923
(409,230)	(458,128)	(5,902)	(917)
-	(99)	23,041	-
11,536	-	(32,770)	(41,493)
(315,567)	(391,277)	2,299	(25,487)
1,104,600	1,304,745	(954,140)	(1,121,862)
3,642,149	3,413,938	-	-
1,399,014	1,598,427	1,154,905	1,406,907
(278,357)	(531,325)	-	-
5,867,406	5,785,785	200,765	285,045
133,560,060	127,774,275	9,680,753	9,395,708
\$ 139,427,466	\$ 133,560,060	\$ 9,881,518	\$ 9,680,753

Reconciliation of the Statement of Revenues,
Expenses, and Changes in Fund Net Position of Proprietary Funds
To the Statement of Activities - Business-Type Activities
For the Year Ended December 31, 2013

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

Net change in net position - total enterprise funds	\$ 5,867,406
The current year net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(697,818)</u>
Change in net position of business-type activities	<u>\$ 5,169,588</u>

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Business-type Activities - Enterprise Funds			
	Water and Sewer Fund	Coliseum Fund	Medical Services Fund	Other Non- Major Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 15,735,366	\$ 3,004,225	\$ 4,023,972	\$ 2,409,879
Other operating revenue	959,587	-	-	-
Payments to suppliers	(2,964,810)	(2,033,100)	(2,899,601)	(806,039)
Payments to employees	(4,807,424)	(1,469,086)	(1,254,743)	(1,507,524)
Other receipts (payments)	-	-	-	146,111
Internal activity - payments to other funds	(1,433,397)	-	-	(29,438)
Net cash provided by (used in) operating activities	<u>7,489,322</u>	<u>(497,961)</u>	<u>(130,372)</u>	<u>212,989</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances to other fund	(479,284)	-	-	-
Payments from landfill liability	-	-	-	-
Operating subsidies and transfers from other fund	-	843,300	156,155	95,000
Operating subsidies and transfers to other fund	-	-	-	(156,155)
Net cash provided by (used in) noncapital financing activities	<u>(479,284)</u>	<u>843,300</u>	<u>156,155</u>	<u>(61,155)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	2,238,028	-	15,722	328,862
Advances to other fund	(170,431)	-	-	-
Proceeds from capital debt	-	339,279	-	51,234
Insurance proceeds related to capital assets	-	-	-	-
Purchases of capital assets	(8,453,110)	(854,252)	(20,750)	(387,991)
Principal paid on capital debt	(2,691,665)	(457,211)	-	-
Interest paid on capital debt	(375,426)	(36,088)	-	-
Proceeds from sale of equipment	-	-	12,000	-
Capital grant	671,562	-	-	-
Transfer for capital purposes	(99,956)	453,214	(86,972)	(83,928)
Net cash used in capital and related financing activities	<u>(8,880,998)</u>	<u>(555,058)</u>	<u>(80,000)</u>	<u>(91,823)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	66,447	-	(103)	5,883
Net cash provided by investing activities	<u>66,447</u>	<u>-</u>	<u>(103)</u>	<u>5,883</u>
Net increase (decrease) in pooled cash and investments	(1,804,513)	(209,719)	(54,320)	65,894
Balance - beginning of the year	9,186,009	830,822	54,320	905,634
Balance - end of the year	<u>\$ 7,381,496</u>	<u>\$ 621,103</u>	<u>\$ -</u>	<u>\$ 971,528</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,408,634	\$ (902,499)	\$ 95,687	\$ (181,655)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	4,329,292	501,966	8,465	341,053
Miscellaneous nonoperating income	-	-	-	-
Change in assets and liabilities:				
Receivables, net	(209,296)	35,327	(230,316)	27,165
Change in uncollectible accounts	11,235	-	15,622	360
Inventories	(38,514)	21,195	-	(991)
Prepaid expenses	44,888	14,452	-	56
Accounts and other payables	542,634	(300,515)	(15,611)	34,192
Unearned revenue	459,983	133,767	-	-
Accrued expenses	(59,534)	(1,654)	(4,219)	(7,191)
Net cash provided by (used in) operating activities	<u>\$ 7,489,322</u>	<u>\$ (497,961)</u>	<u>\$ (130,372)</u>	<u>\$ 212,989</u>
Noncash capital activities/developer contributions:	\$ 2,079,945	\$ -	\$ -	\$ 328,861
Noncash capital activities/transfer assets from other funds:	-	-	-	-

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

Business-type Activities Enterprise Funds		Governmental Activities Internal Service Funds	
Totals		Totals	
2013	2012	2013	2012
\$ 25,173,442	\$ 24,837,785	\$ 2,682,636	\$ 2,606,921
959,587	824,776	6,641	1,161
(8,703,550)	(9,418,824)	(2,403,031)	(2,268,065)
(9,038,777)	(10,039,191)	(473,545)	(567,860)
146,111	(29,093)	-	-
(1,462,835)	(1,181,218)	-	-
7,073,978	4,994,235	(187,299)	(227,843)
(479,284)	306,432	-	-
-	-	(49,954)	(59,754)
1,094,455	1,393,300	450,000	400,000
(156,155)	(230,077)	-	-
459,016	1,469,655	400,046	340,246
2,582,612	2,593,413	-	-
(170,431)	167,176	-	-
390,513	247,514	1,267,000	-
-	-	24,391	-
(9,716,103)	(6,013,884)	(2,456,031)	(1,378,893)
(3,148,876)	(3,143,899)	-	(14,742)
(411,514)	(462,388)	(14,593)	(917)
-	-	111,054	107,748
671,562	181,483	-	-
182,358	(96,120)	704,905	1,006,907
(9,619,879)	(6,526,705)	(363,274)	(279,897)
72,227	88,420	19,436	20,229
72,227	88,420	19,436	20,229
(2,002,658)	25,605	(131,091)	(147,265)
10,976,785	10,951,180	4,225,610	4,372,875
\$ 8,974,127	\$ 10,976,785	\$ 4,094,519	\$ 4,225,610
\$ 1,420,167	\$ 1,696,021	\$ (956,439)	\$ (1,096,375)
5,180,776	5,092,555	834,434	957,096
-	-	4,044	-
(377,120)	(334,950)	(65,589)	7,240
27,217	70,001	-	-
(18,310)	(3,843)	(6,070)	(59,548)
59,396	(1,323)	-	-
260,700	295,945	26,505	(26,014)
593,750	(1,911,075)	-	-
(72,598)	90,904	(24,184)	(10,242)
\$ 7,073,978	\$ 4,994,235	\$ (187,299)	\$ (227,843)
\$ 2,408,806	\$ 2,703,410	\$ -	\$ -
-	-	-	-

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013 (with comparative totals for 2012)

	<u>Trust Funds</u>		<u>Agency Funds</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
ASSETS				
Equity in pooled cash & investments	\$ 1,562,177	\$ 1,093,029	\$ 1,170,738	\$ 1,212,720
Investments	85,849	141,036	-	-
Receivables	72,811	61,206	185	285
Due from other governments	-	-	9,705	35,172
Total assets	<u>\$ 1,720,837</u>	<u>\$ 1,295,271</u>	<u>\$ 1,180,628</u>	<u>\$ 1,248,177</u>
LIABILITIES				
Accounts payable	\$ 8,980	\$ 7,435	\$ 187,767	\$ 177,986
Due to other governments	-	-	955,700	1,041,473
Custodial accounts	-	-	37,161	28,718
Total liabilities	<u>8,980</u>	<u>7,435</u>	<u>1,180,628</u>	<u>1,248,177</u>
NET POSITION				
Held in trust for pension benefits and other purposes	<u>\$ 1,711,857</u>	<u>\$ 1,287,836</u>	<u>\$ -</u>	<u>\$ -</u>

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Trust Funds	
	2013	2012
ADDITIONS		
Contributions:		
Employer	\$ 1,187,852	\$ 1,144,340
Total contributions	1,187,852	1,144,340
Investment earnings:		
Interest	10,332	8,262
Total investment earnings	10,332	8,262
Total additions	1,198,184	1,152,602
DEDUCTIONS		
Benefits	769,563	1,001,071
Administrative expenses	4,600	731
Total deductions	774,163	1,001,802
Change in net position	424,021	150,800
Net position - beginning	1,287,836	1,137,036
Net position - ending	\$ 1,711,857	\$ 1,287,836

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

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

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

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

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

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

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

C. Measurement Focus and Basis of Accounting

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

Fiduciary funds account for resources legally held in trust or agency capacity for others and which therefore cannot be used to support the government's own programs. Trust funds employ the same economic resource measurement focus and accrual basis of accounting as proprietary funds. Agency funds report only assets and liabilities and do not have a measurement focus. They use the accrual basis of accounting to recognize receivables and payables.

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

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

The City reports the following major governmental funds:

- **General Fund:** The government's primary operating fund. It accounts for all financial resources of the general government not accounted for in another fund. As of December 31, 2013, unassigned fund balance for the general fund was \$2,891,427, or 6.2 percent of total reported general fund expenditures and 5.8 percent of total operating fund expenditures (general and street fund), which exceeds the city's budgetary policy of maintaining fund balance equal to 5 percent of annual operating expenditures for these funds.
- **Special Revenue:**
 - Community Development Fund** – The fund accounts for activities within the CDBG and HOME programs funded by grants from the U.S. Department of Housing and Urban Development (HUD). Sources of funds are derived from the HUD grant funds and program income.
 - Capital Projects:** **Capital Improvement Fund** – The fund that accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
 - Urban Arterial Street Fund** – The fund accounts for the continued development of the arterial street system within the City. Sources of funds are derived from indirect federal and direct state transportation grants and an operating transfer from the Capital Improvement Fund

The City reports the following major enterprise funds:

- **Water and Sewer Fund:** The water and sewer fund operates the water distribution system, the sewer treatment plant, sewage pumping stations and collection systems.
- **Medical Services Fund:** The medical services fund accounts for ambulance service operations. This fund did not qualify as a major fund in the previous year and is the reason for the variances between ending and beginning balances in 2012 and 2013, respectively, in the combining statements for nonmajor enterprise funds.
- **Coliseum Fund:** The coliseum fund accounts for activities of the government's coliseum operations.

Additionally, the City reports the following fund types:

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for utility, ambulance, storm water, inspection services, golf course and coliseum sales and services. The principal operating revenues of the internal service funds are charges to customers for supply sales, copier services, fleet management and insurance. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Cash and Cash Equivalents - It is the City's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding \$6,334,722 in cash on deposit with financial institutions and the State Treasurer's Investment Pool. The State Investment Pool is considered a cash equivalent. The interest on these balances is prorated to the various funds based on the average monthly balance for each fund.

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

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

Receivables - Taxes receivable consists of property, sales, utility and real estate excise taxes. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. Special assessments receivable consists of assessments that are recorded when levied and are liens against the property benefited. Deferred inflows related to assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2013, there were delinquent special assessments receivable in the amount of \$2,949. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at year-end.

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

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

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

Restricted Assets and Liabilities – These accounts contain resources for construction and debt service in enterprise funds. Specific debt service reserve requirements are described in Note 9. The restricted assets of the enterprise funds are composed of pooled cash and investments of \$1,159,646 in Debt Service and \$737,393 in Capital Projects.

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

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

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

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

Compensated Absences - Eligible employees can earn vacation leave and sick leave which, if unused, is paid upon termination of employment according to the terms of applicable collective bargaining agreements, personnel rules and regulations, and the employee's length of service. In governmental funds, only liabilities for compensated absences of employees terminated prior to the close of the calendar year that will not be paid until the subsequent year are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absence liability is only recognized in the government-wide report. In proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them. Compensated absences are shown as long and short term liabilities based on an estimated amount of annual usage. As of December 31, 2013, the City's compensated absences payable in accordance with GASB Statement No. 16 for all funds amounted to 106,923 hours and \$4,349,973. A liability for these amounts are to be reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Liabilities – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Under GASB 65, bond issue costs are expensed as incurred. Long-term obligations used to finance Proprietary Fund operations and payable from revenue of the Proprietary Funds are accounted for in the applicable fund. See Note 10.

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

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

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

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

1. The restricted fund balance is used to describe the portion of fund balance that reflects constraints placed on the use of resources externally imposed by creditors, grantors, contributors; or imposed by law through constitutional provisions or enabling legislation.
2. The committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the city's highest level of decision-making authority. The city council is the highest level of decision-making authority that can, by adoption of an ordinance, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.
3. The assigned fund balance classification of fund balances are constrained by the city council's intent to be used for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds, at a minimum, are intended to be used for the purpose of that fund.
4. The unassigned classification of fund balances is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification will be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government wide statement of net position. One element of that reconciliation explains that "long-term liabilities", including bonds payable, are not due and payable in the current period and therefore not reported in the funds. The details of this \$33,086,475 difference are following.

Bonds and Notes Payable	(\$ 25,565,849)
Bond Premium	(549,334)
Unamortized Refunding Gain	464,535
Public Works Trust Fund Loans Payable	(2,737,335)
Frost Facility Loan	(100,000)
Net Pension Obligation	93,641
Net OPEB Obligation	(1,010,801)
Accrued Interest	(109,980)
Compensated Absences	(3,571,352)
	<u>(\$ 33,086,475)</u>

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The following table details the \$199,286,661 difference.

Land	\$ 82,563,177
Depreciable Assets	187,724,214
Depreciation	(86,101,077)
Construction in Progress	10,615,256
Joint Ventures	4,485,091
	<u>\$ 199,286,661</u>

Other long-term assets are earned in the upcoming period but not available for current period expenditures. The following table details the \$7,404,468 difference.

Operating Grant - Economic Environment	\$ 2,876,356
Special Assessment	99,767
Sales Tax	3,055,210
Motor Vehicle Fuel Tax	125,292
Utility Tax	793,538
Leasehold Excise Tax	4,626
Hotel/Motel Tax	101,848
Property Tax	347,831
	<u>\$ 7,404,468</u>

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following table details the differences from capital activity in the current year.

Capital Outlays	\$ 6,452,788
Depreciation	(6,108,113)
Cost of Assets Sold	<u>(977,799)</u>
	<u><u>(\$ 633,134)</u></u>

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

Debt Retired	<u><u>\$ 2,649,505</u></u>
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Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

Property Taxes	(\$ 30,950)
Sales Tax	77,852
Utility Tax	(81,382)
Other Tax	(173,788)
Licenses & Permits	(1,465)
Public Safety	(22,643)
Sponsorships	(8,771)
Interest Receivable	(10,135)
Contract Receivable	(306,783)
Miscellaneous Receivable	<u>(8,710)</u>
	<u><u>(\$ 566,775)</u></u>

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.

Compensated Absences	\$ 316,083
Net Pension Obligation	(258,194)
Interest on Long Term Debt	5,963
Amortized Bond Premium	76,758
Amortized Refunding Interest	(61,142)
	<u>\$ 79,468</u>

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

Internal Service Fund Operating Costs	(\$ 797,481)
Transfer of Equipment to Internal Service Funds	527,556
Transfer of Insurance Claim Recovery	24,391
Investment Earnings	17,930
Disposition of Capital Assets	(28,726)
Transfers	1,154,905
	<u>\$ 898,575</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. Prior to November 1 in even-numbered years, the City Manager submits to the City Council a proposed operating budget for the biennial period commencing the following January 1. The operating budget includes proposed expenditures and their means of financing.
2. Public hearings are conducted at regular Council meetings to obtain taxpayer comments.
3. During December, the biennial budget is legally enacted through passage of an ordinance.
4. The adopted biennial budget constitutes the legal authority for expenditures. The level of control at which expenditures may not legally exceed appropriations is the fund. Revisions that alter the total expenditures of any fund must be approved by the City Council and adopted by ordinance. The City's biennial budget was amended twice times during 2013. The financial statements present the amended budget as approved.
5. All appropriations, except for debt service and capital projects, lapse at the end of the biennium.

6. The City budgets all funds in accordance with the Optional Municipal Code 35A.33 of the Revised Code of Washington. Biennially appropriated budgets are adopted for the General and Special Revenue Funds on the modified accrual basis of accounting. Proprietary Funds are budgeted on the accrual basis. There are no differences between the budgetary basis and generally accepted accounting principles.

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

B. Encumbrance Accounting

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances are made at the time goods or services are requisitioned based upon estimated or known costs. Upon payment, this encumbered value is reversed and the actual cost recorded. At year end the amount of encumbrances expected to be honored upon performance is 100% as the City is currently in the middle of the budget biennium. Total encumbrances are as follows:

Encumbrances	
General Fund	\$ 123,154
Capital Improvement Fund	205,242
Urban Arterial Street Fund	4,829,210
Other Non-Major Gov't Funds	741,673
Water/Sewer Fund	4,921,866
Coliseum Fund	35,143
Other Non-Major Enterprise Funds	430,203
Internal Service Funds	477,430
	<u>\$ 11,763,921</u>

C. Budget Revision

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

	Original Biennial Budget	Total Revisions	Amended Biennial Budget
General Fund	\$ 91,674,300	\$ 717,365	\$ 92,391,665
Street Fund	3,979,264	-	3,979,264
Arterial Street Fund	2,800,000	133,972	2,933,972
Urban Arterial Street Fund	7,400,000	16,655,272	24,055,272
Capital Improvement Fund	32,061,706	(7,245,020)	24,816,686
Water & Sewer Fund	53,624,565	8,026,799	61,651,364
Medical Services Fund	9,207,050	6,740	9,213,790
Building Safety Fund	2,770,000	135,974	2,905,974
Coliseum Fund	8,249,623	522,922	8,772,545
Stormwater Utility Fund	2,970,849	2,874,314	5,845,163
Columbia Park Golf Course Fund	648,200	32,353	680,553
Equipment Rental Fund	9,925,866	(276,455)	9,649,411
Central Stores Fund	656,140	27,068	683,208
Risk Management Fund	3,315,984	80,948	3,396,932
Debt Service Fund	6,166,163	3,032	6,169,195
LID Guaranty Fund	34,500	108	34,608
BI-PIN Operations Fund	629,262	-	629,262
Community Development Fund	1,310,800	1,041,768	2,352,568
MPD Assistant Operations Fund	71,600	12,817	84,417
Asset Forfeiture Fund	115,400	53,889	169,289
Public Safety Fund	5,265,416	-	5,265,416
Cash Reserve Fund	2,597,500	57,000	2,654,500
Lodging Tax Fund	2,700,000	37,954	2,737,954
Fire Pension Fund	1,135,470	4,841	1,140,311
OPEB Trust Fund	2,561,000	(22,474)	2,538,526
Total	\$ 251,870,658	\$ 22,881,187	\$ 274,751,845

NOTE 4 – EQUITY IN CASH, DEPOSITS AND INVESTMENTS

A. Cash and Deposits

At year-end, the carrying amount of the City's cash balances was \$1,396,226, which consisted of \$1,358,688 per the City's checking account bank balances, deposits in transit of \$192,195, \$63,868 in cash drawers and advance travel funds, less outstanding checks of \$218,525. No deposits were uninsured or uncollateralized.

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

The following is a summary of cash and deposits as of December 31, 2013:

Item

Checking Accounts Deposits	\$1,332,358
Cash in Change Funds	43,868
Cash in Advance Travel Funds	<u>20,000</u>
	<u><u>\$1,396,226</u></u>

B. Investments

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

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

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Agency Securities	\$22,022,046	\$21,851,076	2.61
State Treasurer's Investment Pool	<u>4,976,034</u>	<u>4,976,034</u>	0.00
Total	\$26,998,080	\$26,827,110	
Portfolio weighted average			2.13

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

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

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state law and local ordinances, all investments of the City's funds (except as noted) are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool or certificates of deposit with Washington State banks. The City has no investment policy that would further limit its investment choices. As of December 31, 2013, the City's investments in agency securities were all rated AAA. The State Treasurer's Investment Pool is unrated. The credit risk of the State Treasurer's Investment Pool is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the State Pool are all classified as category 1 risk level investments. They are either insured or held by a third-party custody provider in the State Pool's name.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not

allow for an investment in any one security type or financial institution that is in excess of fifty percent of total investments. The City's investments in which more than five percent is invested in any single issuer as of December 31, 2013 are shown in the following table.

Concentration of Credit Risk as a Percentage of Total Investments

<u>Issuer</u>		<u>Book Value</u>
Federal Home Loan Bank	\$6,999,850	26%
Federal National Mortgage Association	6,019,558	22%
Federal Home Loan Mortgage Corp	5,003,123	18%
Federal Farm Credit Bank	3,999,515	15%

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

NOTE 5 - PROPERTY TAXES

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

Property Tax Calendar

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

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

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

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

excluded from this calculation.

As a code city, Kennewick must adopt a separate ordinance or resolution authorizing a property tax increase in both dollars and percentage to be filed with the County by November 30th. The City's regular levy for 2013 was \$2.1244 per \$1,000, on an assessed valuation of \$5,203,490,152, for a total regular levy of \$11,054,255. The City dedicated \$114,000 of the regular levy to the Firemen's Pension Fund. Special levies approved by the voters are not subject to the limitations listed above. In 2013, the City levied an additional \$.0776 per \$1,000 for the 1996 voter-approved G.O. bond issue for a total additional levy of \$401,000.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows

Governmental Activities	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
Non-depreciable capital assets:				
Land (including ROW)	\$ 79,401,818	\$ 3,283,161	\$ (121,802)	\$ 82,563,177
Construction in Progress	12,155,460	4,569,099	(6,109,303)	10,615,256
Subtotal non-depreciable capital assets	91,557,278	7,852,260	(6,231,105)	93,178,433
Depreciable capital assets:				
Buildings	42,489,711	150,801	-	42,640,512
Improvements other than buildings	20,406,196	116,324	(1,003,750)	19,518,770
Infrastructure	114,427,516	7,836,906	-	122,264,422
Equipment	17,422,257	2,721,752	(1,637,815)	18,506,194
Subtotal depreciable capital assets	194,745,680	10,825,783	(2,641,565)	202,929,898
Accumulated Depreciation:				
Buildings	(10,945,987)	(837,514)	-	(11,783,501)
Improvements other than buildings	(5,263,006)	(773,972)	197,259	(5,839,719)
Infrastructure	(62,693,176)	(4,135,794)	-	(66,828,970)
Equipment	(10,052,915)	(1,195,268)	1,444,485	(9,803,698)
Subtotal accumulated depreciation	(88,955,084)	(6,942,548)	1,641,744	(94,255,888)
Governmental activities capital assets, net	\$ 197,347,874	\$ 11,735,495	\$ (7,230,926)	\$ 201,852,443

Business-Type Activities	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
Non-depreciable capital assets:				
Land	\$ 2,987,734	\$ -	\$ -	\$ 2,987,734
Intangible	29,179	-	-	29,179
Construction in Progress	3,200,968	6,466,594	(4,252,391)	5,415,171
Subtotal non-depreciable capital assets	6,217,881	6,466,594	(4,252,391)	8,432,084
Depreciable capital assets:				
Buildings and improvements	212,001,142	6,978,690	-	218,979,832
Equipment	10,701,173	523,212	(191,293)	11,033,092
Subtotal depreciable capital assets	222,702,315	7,501,902	(191,293)	230,012,924
Accumulated Depreciation:				
Buildings and improvements	(69,539,145)	(4,848,333)	-	(74,387,478)
Equipment	(7,275,060)	(332,442)	190,829	(7,416,673)
Subtotal accumulated depreciation	(76,814,205)	(5,180,775)	190,829	(81,804,151)
Business-type activities capital assets, net	\$ 152,105,991	\$ 8,787,721	\$ (4,252,855)	\$ 156,640,857

Depreciation is summarized as follows:

Governmental activities:

General Government	\$ 487,359
Public Safety	867,479
Physical Environment	198,049
Transportation	4,233,294
Economic Environment	46,368
Culture & Recreation	1,109,999
Total	<u>\$ 6,942,548</u>

Business-type activities:

Water and sewer service	\$ 4,329,291
Medical service	8,465
Coliseum service	501,966
Golf Course service	323,445
Stormwater service	17,608
Total	<u>\$ 5,180,775</u>

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized in 2013.

The City has active construction projects as of December 31, 2013. At year-end the City's significant commitments with contractors are as shown on the following schedule.

Project	Contract		Revenue Source
	Paid through 12/31/13	Remaining Commitment	
Thompson Hill Zone 4 Reservoir & Booster Pump Station	\$ 803,205	\$ 3,891,704	PWTF Loan
Olympia Street Reconstruction	511,910	3,860,529	TIB & STP Grants, City Match
ASR -1 Well	1,209,556	415,360	Dept of Ecology Grant
2013 Pavement Preservation (Federal BST)	1,002,263	393,138	STP Grant, CIP Fund (Sales & REET taxes)
Step toe Street Extension Phase 2	4,329,325	234,160	TIB & STP Grants, City Match
3 Rivers Ent. Dist. Landscape & Irrigation	57,491	45,453	Land Sale Proceeds
Hildebrand / SR 395 KID Irrigation (Small Works)	26,138	26,138	Land Sale Proceeds
45th Avenue Improvements	181,020	21,930	CIP Fund (Sales & REET taxes)
ASR Observation Well	324,025	11,696	Dept of Ecology Grant
Lakeridge Estates Sewer LID #226	442,588	5,000	LID Financing
Highlands Middle School Beacon Installation (Small Works)	1,800	1,800	CIP Fund (Sales & REET taxes)
2013 City Wide Pedestrian Ramp Improvements	227,698	1,762	CDBG Grant
W. Bruneau Avenue Storm Drainage Improvements	8,474	955	Stormwater Utility Fund
Awarded but not started as of 12/31/2013			
Thompson Hill Zone 6 Booster Pump Station	-	696,713	
Columbia Center Blvd. Safety Improvements	-	587,456	
Wellhead Area Retrofit Project (WARP1)	-	185,798	

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

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

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

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

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

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

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

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

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

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1

members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

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

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

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

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned

after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

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

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

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

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

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

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

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

Funding Policy

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

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

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

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

Members Not Participating in JBM:

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

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

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

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

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

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$20,588	\$797,493	\$255,928
2012	26,202	674,196	214,270
2011	26,228	575,993	172,773

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

Plan Description

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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

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

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

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

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

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

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

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

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

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

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members

who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
Total	27,784

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution

and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

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

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

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2013	\$196	\$877,376
2012	183	833,614
2011	179	806,251

C. Firemen's Pension Fund

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

GASB Statements No. 25 and 27 require the performance of biennial actuarial valuations. The most recent actuarial study of the system was performed to determine the funding requirements as of January 1, 2012. This plan was not audited; however, a copy of the review can be obtained by request at the following address: City of Kennewick, 210 W. 6th Ave., Kennewick WA, 99336.

The City of Kennewick's obligations under the Firemen's Pension Fund are limited to pension benefits provided to firefighters retired prior to March 1, 1970. As of December 31, 2013, there were 9 retirees and 3 survivors covered by the Fund, all of which were drawing pension benefits. To meet these obligations, the City may contribute annually to the Fund the amount raised by levying all or part of a tax of up to \$0.45 per \$1,000 of true and fair market value, the maximum provided by law for maintaining the Fund. Contributions also include donations and income from state fire insurance premium collection.

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

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

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

Percentage of salary:

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

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

The cash balance at December 31, 2013 was \$729,808 and retirement pensions in 2013 totaled \$134,222.

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

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

	Fiscal Year Ending		
	2011	2012	2013
Amortization of UAAL (BOY)	\$ 110,888	\$ 117,542	\$ 117,542
Interest to end of year (EOY)	4,436	4,702	4,702
Annual required contribution (ARC)	115,324	122,244	122,244
Interest on NPO	3,391	717	(1,478)
Adjustment to ARC	(6,207)	(1,361)	2,921
Annual pension cost (APC)	112,508	121,600	123,687
Total contributions	179,370	176,474	180,370
Change in NPO	(66,862)	(54,874)	(56,683)
NPO at BOY	84,778	17,916	(36,958)
NPO at EOY	17,916	(36,958)	(93,641)

The following schedule shows the three-year trend beginning with 2011 as of December 31:

Year	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
2013	\$123,687	146%	(\$93,641)
2012	\$121,600	145%	(\$36,958)
2011	\$112,508	159%	\$17,916

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

Year	Annual Required Contribution	Interest On NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Contributions	Change in NPO	NPO Balance	Gain/Loss	Amortization Factor	Amortization of Gain/Loss	Ending Balance
2013	122,244	(1,478)	(2,921)	123,687	180,370	(56,684)	(93,641)	(58,126)	12.6523	(2,921)	(93,641)
2012	122,244	717	1,361	121,600	176,474	(54,874)	(36,958)	(54,230)	13.1657	1,361	(36,958)
2011	115,324	3,391	6,207	112,508	179,370	(66,862)	17,916	(64,046)	13.6593	6,207	17,916
2010	115,324	8,759	15,493	108,590	242,784	(134,194)	84,778	(127,460)	14.1339	15,493	84,778
2009	150,624	15,773	23,433	142,964	239,451	(96,487)	218,972	(88,827)	13.4622	23,433	218,972
2008	150,624	16,692	24,155	143,161	161,547	(18,386)	315,459	(10,922)	13.8212	24,155	315,459
2007	157,014	20,951	28,044	149,921	197,000	(47,079)	333,845	(39,986)	13.5832	28,044	333,845

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

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

D. Statewide City Employees Retirement System

Prior to 1972, all full-time City employees, except firemen, were covered by Statewide City Employees Retirement System, a contributory plan. PERS absorbed this retirement system in January 1972. The City pays defined benefits for one pensioner, which totaled \$2,604 in 2013.

NOTE 8 - SELF INSURANCE

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

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

The City is a member of the Washington Cities Insurance Authority (WCIA) which was formed by nine cities on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 members.

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

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

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

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

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

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

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

The City of Kennewick also contracted with F. M. Global Insurance Company of Bellevue, Washington on September 1, 2004 to handle all property, inland marine, boiler and machinery claims. In general, claim deductibles are \$25,000 per occurrence. The City paid \$91,662 to F. M. Global Insurance Company for their services in 2013.

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

During 1983, self-insurance for sewer back-up claims was added to the Risk Management Fund. The source of revenue was a two percent surcharge added to sewer fees. The surcharge was eliminated on January 1, 1988 at which time the reserve was determined to be self-sustaining. In 1996, an unusual influx of claims was submitted and the Water/Sewer Fund contributed a one-time sum of \$100,000 to the reserve, an additional contribution was made during 2008 of \$75,000. Future claims will continue to be monitored and the two percent surcharge may be reinstated if it is deemed necessary. Reserves at December 31, 2013 were \$31,801.

During 1992, self-insurance for employee dental claims was added to the Risk Management Fund. Various City funds are charged monthly for premiums. Cash reserves available for claims on December 31, 2013, were \$68,062 and the liability for claims incurred but not reported (IBNR) was \$30,640 on that date. Management estimates unpaid claims based upon historical trends. Expenditures were not adjusted due to salvage or subrogation in 2013.

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

	2012				2013			
	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance	Beginning Balance	Claims Incurred	Claims Payments	Ending Balance
Unemployment Claims	\$ -	\$ 97,782	\$ (97,782)	\$ -	\$ -	\$ 94,176	\$ (94,176)	\$ -
Dental Claims	32,487	425,171	(427,424)	30,234	30,234	456,337	(455,931)	30,640
	<u>\$ 32,487</u>	<u>\$ 522,953</u>	<u>\$ (525,206)</u>	<u>\$ 30,234</u>	<u>\$ 30,234</u>	<u>\$ 550,513</u>	<u>\$ (550,107)</u>	<u>\$ 30,640</u>

During 2005, funds earmarked for the Pasco landfill settlement were reserved in the Risk Management Fund. This amount represents the City's portion of a larger settlement that was agreed upon by the group of entities participating in the landfill clean up ordered by the Department of Ecology. These funds will be used for future legal costs or to offset additional clean-up efforts. The balance as of, December 31, 2013, were \$153,338.

Since 2011 the City has been with the Association of Washington Cities (AWC) Retrospective Rating Plan and paid \$41,898 to AWC to administer this program for 2013. The City received \$9,657.50 for 2011 refunds during 2013. A new wage subsidy program for Employers was initiated in 2012 by the Washington Department of Labor and Industries for providing modified duty to injured workers. Premium refunds totaling \$23,619 were received by Kennewick as part of that program.

NOTE 9 - LONG-TERM DEBT AND CAPITAL LEASES

General Obligation Bonds

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

	Issuance Amount	Installments	Final Maturity	Interest Rates	Debt Outstanding
2005 GO Refunding Bonds	\$ 3,285,000	\$80,000 - \$385,000	12/2/2016	3.0 - 4.5%	\$ 1,115,000
2006 GO Bonds	9,790,000	\$270,000 - \$705,000	12/1/2025	3.75 - 5.0%	6,860,000
2010A GO Bonds	1,840,000	\$250,000 - \$415,000	12/1/2014	3.00%	415,000
2010B GO Bonds	11,825,000	\$425,000 - \$830,000	12/1/2025	3.45 - 6.323%	11,825,000
2011 GO Refunding Bonds 03B	5,330,000	\$270,000 - \$705,000	12/1/2025	3.45 - 6.323%	5,265,000
					<u>\$ 25,480,000</u>

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

	Year Ended December 31									Total
	2014	2015	2016	2017	2018	2019-2023	2024-2028	2029-2033	2034	
Principal	\$1,660,000	\$1,730,000	\$1,785,000	\$1,460,000	\$1,510,000	\$8,425,000	\$4,400,000	\$3,680,000	\$830,000	\$25,480,000
Interest	1,214,381	1,150,356	1,081,519	1,003,461	945,799	3,732,492	2,063,429	975,665	52,481	12,219,585

Special Assessment Debt

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

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

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

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

Debt Limit Capacities

The City's limitation on bond issues is established by State law and is calculated using a formula based on a percentage of assessed valuation (AV) of taxable property. The three specific debt capacities defined, their assessed value limitation and their remaining capacities at December 31, 2013 are as follows:

<u>Purpose</u>	<u>% of Av</u>	<u>Remaining Capacity</u>	<u>Notes</u>
General Government	2 1/2%	\$ 106,182,000	(\$52,682,000 is Councilmanic)
Park and Open Space	2 1/2%	133,264,000	
Utility	2 1/2%	133,264,000	

Notes and Loans Payable

The City has taken advantage of low interest loans through the State of Washington for the financing of street and utility projects for both general government and business-type activities. The City also has entered into a loan with Cascade Columbia Foods, LLC, a Washington limited liability company to purchase land that is located next to the Frost Facility.

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 549,123	\$ 27,522	\$ 2,793,820	\$ 320,068
2015	449,123	22,882	2,856,140	271,169
2016	449,123	18,391	2,888,395	229,101
2017	449,123	13,900	2,553,529	176,365
2018	449,123	9,408	2,588,957	125,691
2019 - 2023	491,719	7,376	8,031,460	277,675
2024 - 2028	-	-	3,199,386	34,328
2029-2033	-	-	157,722	17,053
	<u>\$ 2,837,335</u>	<u>\$ 99,479</u>	<u>\$ 25,069,409</u>	<u>\$ 1,451,450</u>

Outstanding notes and loans are shown on the following table for both governmental and business activities as of December 31, 2013.

Purpose	Issuance Amount	Installments	Final Maturity	Interest Rates	Debt Outstanding
Governmental Activities:					
PWTF - Comp Street Imp I	\$ 3,817,100	\$ 203,264	07/01/18	1.00%	\$ 1,016,318
PWTF - Comp Street Imp II	4,550,000	215,526	07/01/20	1.00%	1,721,017
Frost Facility Loan	600,000	100,000	01/15/14	3.63%	100,000
Total Governmental Activities					<u>\$ 2,837,335</u>
Purpose	Issuance Amount	Installments	Final Maturity	Interest Rates	Debt Outstanding
Business-type Activities:					
PWTF - Water System Imp	\$ 6,856,358	\$ 368,669	07/01/16	1.00%	\$ 1,106,011
PWTF - Wastewater Lagoon	2,450,000	130,464	07/01/20	1.00%	913,252
PWTF - Misc W/S Imp	3,000,000	159,375	07/01/21	0.50%	1,275,000
PWTF - Advanced Water Treatment	9,500,000	531,250	07/01/25	0.50%	6,375,000
PWTF - Waste Wtr Trtmt Plant-Const	5,500,000	290,278	07/01/28	0.50%	4,354,166
PWTF - Zone 4 Reservoir	4,250,000	223,685	07/01/32	0.50%	599,329
CERB - Welch's Project	125,000	4,689 - 9,338	01/01/21	4.70%	76,606
WPCRF - LID Manual & Demo Project	390,000	90,358	12/31/19	1.40%	14,755
WPCRF - Wellhead Area Retrofit	690,000	159,871	12/31/18	1.40%	283,994
WPCRF - Kennewick Sustainability	725,000	167,993	03/01/21	1.40%	80,533
SRF - Drinking Water	4,040,000	212,632	10/01/24	1.50%	2,338,945
SRF - Water Treatment Facility	4,080,000	240,833	10/01/23	1.00%	2,266,665
SRF - Ranney Improvements	3,030,000	173,030	10/01/25	1.50%	1,890,901
SRF - Wastewater Treatment Facility	10,063,642	479,167 - 748,141	05/31/17	4.50%	3,494,252
Total Business-type Activities					<u>\$ 25,069,409</u>

At December 31, 2013, restricted assets in proprietary funds contain \$1,160,274 in reserves as required by the SRF loan agreement.

Arbitrage

Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax exempt borrowing rates. The U.S. Treasury requires payment every five years. As of December 31, 2013, there was no liability for rebatable arbitrage on any of the City's bond issues.

Capital Leases

The City had one outstanding lease agreement through the state's LOCAL lease program during 2013. The lease provided partial funding for the purchase of 29 police vehicles and 27 data mobile data terminals at a cost of \$1,301,390.

The amount financed was \$1,181,136 with a 5 year term and a 1.36851% interest rate. Payments are made from the Equipment Rental Fund.

This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present values of their future minimum lease payments as of the inception date. The asset acquired through the capital lease, the future minimum lease obligation and the new present values of these minimum lease payments of December 31, 2013 are on the following schedule.

Leased Equipment	Governmental Activities	Year Ending December 31	Governmental Activities
Police Vehicles	\$ 1,181,136	2014	\$ 260,474
		2015	260,474
		2016	260,474
		2017	260,474
		2018	260,474
		Total minimum lease payments	1,302,370
		Less: amount representing interest	(121,234)
			<u>\$ 1,181,136</u>

NOTE 10 – CHANGES IN LONG-TERM LIABILITIES

The following table shows a summary of changes in long-term liabilities for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 27,475,000	\$ -	\$ 1,995,000	\$ 25,480,000	\$ 1,660,000
Notes and loans	3,436,651	-	599,316	2,837,335	549,124
Special assessments	141,036	-	55,187	85,849	-
Total bonds and notes payable	31,052,687	-	2,649,503	28,403,184	2,209,124
Adjust for deferred amounts:					
For issuance premium	626,091	91,256	88,843	628,504	-
Landfill settlement	202,274	-	48,936	153,338	-
OPEB payable	695,923	314,878	-	1,010,801	-
Capital leases	-	1,181,136	-	1,181,136	221,968
Compensated absences	3,950,487	1,689,671	2,029,940	3,610,218	1,986,735
Governmental activity					
Long-term liabilities	<u>\$ 36,527,462</u>	<u>\$ 3,276,941</u>	<u>\$ 4,817,222</u>	<u>\$ 34,987,181</u>	<u>\$ 4,417,827</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
Notes and loans payable	\$ 27,029,976	\$ 731,101	\$ 2,691,668	\$ 25,069,409	\$ 2,793,820
Biosolids reserve	142,933	460,000	16	602,917	-
Compensated absences	811,135	533,113	604,493	739,755	524,447
Business-type activity					
Long-term liabilities	<u>\$ 27,984,044</u>	<u>\$ 1,724,214</u>	<u>\$ 3,296,177</u>	<u>\$ 26,412,081</u>	<u>\$ 3,318,267</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. The above amounts include \$38,867 of internal services funds compensated absences. The capital lease for \$1,181,136 is also an internal service fund lease.

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

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

See Note 8 for discussion on landfill settlement.

NOTE 11 – CONTINGENT LIABILITIES AND LITIGATION

Contingent Liabilities

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

Litigation

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

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

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

In September of 2011, a lawsuit was filed against the City related to the unlawful use of deadly force by a Kennewick Police Department officer. The Department of Justice concluded that the use of deadly force was justified in this incident and the City denies the assertions made in the lawsuit. The City’s exposure in the lawsuit is limited to its insurance deductible and any punitive damages that may be awarded by a jury if the lawsuit were to go to trial, as punitive damages are excluded from the City’s insurance coverage.

NOTE 12 - COMMITMENTS

The City capitalizes equipment obtained by financing lease agreements. Any liability for these leases and annual amortization requirements are disclosed in Note 9. Pension and other post employment benefit (OPEB) commitments are discussed in Notes 7 and 18, respectively.

NOTE 13 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables at December 31, 2013 are shown on the following schedule:

Receivables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Gov't Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor Proprietary Fund	Internal Service Fund	Total
Interest	\$ 3,446	\$ 32	\$ 13,082	\$ -	\$ 306	\$ 16,112	\$ -	\$ -	\$ 605	\$ 2,163	\$ 35,746
Taxes	3,403,142	-	1,002,447	-	430,042	-	-	-	-	-	4,835,631
Accounts	255,696	2,822,751	-	-	105,979	1,105,518	90,282	900,668	84,185	67,861	5,432,940
Due from other governments	12,189	84,184	6,803	663,067	390,865	1,183,389	-	-	8,423	-	2,348,921
Gross Receivables	3,674,473	2,906,967	1,022,332	663,067	927,192	2,305,019	90,282	900,668	93,213	70,024	12,653,238
Less: allowance for uncollectible accounts	(13,819)	-	-	-	-	(72,341)	-	(212,562)	(3,164)	-	(301,886)
Net Total Receivables	\$ 3,660,654	\$ 2,906,967	\$ 1,022,332	\$ 663,067	\$ 927,192	\$ 2,232,678	\$ 90,282	\$ 688,106	\$ 90,049	\$ 70,024	\$ 12,351,352

B. Payables at December 31, 2013 are shown on the following table:

Payables	General	Community Development	Capital Improvement	Urban Arterial Street	Nonmajor Gov't Funds	Water/Sewer	Coliseum	Medical Services	Nonmajor Proprietary Fund	Internal Service Fund	Total
Interest	\$ -	\$ -	\$ 591	\$ -	\$ -	\$ -	\$ 15,759	\$ -	\$ -	\$ 3,394	\$ 19,744
Claims and judgements	-	-	-	-	-	-	-	-	-	33,459	33,459
Accounts	434,110	1,036	598,627	547,451	81,818	628,195	401,549	3,462	43,769	56,079	2,796,096
Salaries and benefits	603,404	2,120	-	-	24,103	71,219	1,969	63,955	27,922	8,998	803,690
Due to other governments	283	848	-	-	1,202	-	-	-	-	-	2,333
Total Gov't & Bus Activities	\$ 1,037,797	\$ 4,004	\$ 599,218	\$ 547,451	\$ 107,123	\$ 699,414	\$ 419,277	\$ 67,417	\$ 71,691	\$ 101,930	\$ 3,655,322
<u>Reconciliation of financial statements to governmental wide financial statements:</u>											
Accrued long term interest	\$ 109,980	-	-	-	-	-	-	-	-	-	\$ 109,980
Net Total Payables	\$ 1,147,777	\$ 4,004	\$ 599,218	\$ 547,451	\$ 107,123	\$ 699,414	\$ 419,277	\$ 67,417	\$ 71,691	\$ 101,930	\$ 3,765,302

NOTE 14 - INTERFUND TRANSACTIONS

Interfund transactions are classified as follows:

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

As of December 31, 2013 outstanding interfund balances (resulting from various interfund transactions):

Interfund Loans	Purpose - Due to other funds	Due from other funds	Due to other funds
General Fund	Capital Construction	\$ 366,262	\$ -
Capital Improvement Fund	Capital Purchase	1,987,852	-
Other Non-Major Govt'l Funds	Capital Construction	-	366,262
Medical Services Fund	Capital Purchase	-	156,155
Water & Sewer Fund	Capital Construction	1,995,314	-
Coliseum Fund	Capital Construction/Purchase	-	3,491,107
Other Non-Major Enterprise Funds	Capital Construction/Purchase	156,155	492,059
	Total	\$ 4,505,583	\$ 4,505,583

Interfund Transfers	Purpose - Transfers out	Transfers in	Transfers out
General Fund	Operations Transfers (Routine)	\$ 2,500,724	\$ -
General Fund	Capital Transfers (Non-routine)	-	1,162,046
General Fund	Operations Transfer (Golf Course)	-	95,000
General Fund	Operations Transfer (Coliseum)	-	200,000
General Fund	Operations Transfer (Risk Mngmt)	-	450,000
Community Development Fund	Capital (Non-routine)	-	232,549
Capital Improvement Fund	Capital Transfers (Non-routine)	1,601,766	2,884,814
Capital Improvement Fund	Debt Service (Routine)	-	2,679,342
Urban Arterial Street Fund	Capital (Non-routine)	1,198,005	-
Other Non-Major Govt'l Funds	Debt Service (Routine)	2,679,342	-
Other Non-Major Govt'l Funds	Operations Transfers (Routine)	-	2,500,724
Other Non-Major Govt'l Funds	Capital Transfers (Non-routine)	628,376	679,300
Water/Sewer Fund	Capital Transfers (Non-routine)	-	99,956
Medical Services Fund	Capital Transfers (Non-routine)	-	86,972
Coliseum Fund	Operations Transfers (Routine)	200,000	-
Coliseum Fund	Capital Transfers (Non-routine)	1,096,514	-
Other Non-Major Enterprise Funds	Operations Transfers (Routine)	95,000	-
Other Non-Major Enterprise Funds	Capital Transfers (Non-routine)	7,500	91,429
Internal Service Funds	Operations Transfers (Routine)	450,000	-
Internal Service Funds	Capital Transfers (Non-routine)	704,905	-
	Total	\$ 11,162,132	\$ 11,162,132

NOTE 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

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

NOTE 16 - ECONOMIC DEVELOPMENT CORPORATION

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

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

The EDC is a discretely presented component unit of the City of Kennewick. It has a separate and distinct governing authority, which is appointed by the City. The City has no governing authority over the day-to-day operating decisions of the EDC; all obligations of the EDC are paid by user fees. The EDC is fiscally dependent upon the City as all bond issues must be approved by the City of Kennewick. The lack of any assets, liabilities or operating activities for 2013 precludes the need to include a separate column in the City's financial statements.

NOTE 17 - JOINT VENTURES

A. Benton County Emergency Services

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

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

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

1. SECOMM

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

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

2. BCEM

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

3. 800 MHz Radio

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

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

On December 31, 2013, the City of Kennewick's equity interest in SECOMM was \$1,290,466, \$37,725 in BCEM, and \$2,978,243 in 800 MHz Radio. This equity is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from BCES since charges are assessed only to recover anticipated expenses. Complete and separate financial statements for BCES, as SECOMM and BCEM, may be obtained at the City of Richland, 505 Swift Blvd., Richland, Washington.

B. Bi-County Police Information Network

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

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

Effective January 1, 1992, the City of Kennewick assumed responsibility for operation of the BI-PIN system. As the Operating Jurisdiction, Kennewick provides all necessary support services for the operation of BI-PIN such as accounting, legal services, risk management and information systems. The total amount paid by BI-PIN in 2013 for these transactions was \$119,000.

The City of Kennewick's equity interest in BI-PIN was \$148,829 on December 31, 2013, which is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from BI-PIN since charges are assessed only to recover anticipated expenses.

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

C. Metro Drug Forfeiture Fund

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

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

The City of Kennewick's equity interest in Metro was \$29,828 on June 30, 2013, which is reported as an investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distributions from Metro.

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

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

In addition to the pension benefits outlined in Note 7, the City of Kennewick provides post-retirement health care benefits in accordance with state statute for retired police officers and firefighters who are eligible under the Law Enforcement Officers' and Firefighters' (LEOFF) plan 1 retirement system. As of December 31, 2013, the City had 44 individuals that met the eligibility requirements of this retirement plan.

A. Plan Description

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

B. Funding Policy

Pursuant to state statute, the city reimburses 100% of authorized LEOFF 1 retiree healthcare costs. The city pays a monthly insurance premium to cover each retiree under its medical insurance program as well as any remaining eligible out of pocket expenses. Employer contributions are financed on a pay-as-you-go basis. Beginning in 2009, the city's costs for health insurance and other medical costs

for retired firefighters and law enforcement officers were paid for out of its Other Post Employment Benefits (OPEB) Trust Fund. Funding for these costs is provided from the proceeds of a 6.5% utility tax assessed on water and sewer sales that was implemented beginning in 2009 and is dedicated for LEOFF 1 retiree medical costs. The projected revenue from this utility tax is expected to mirror the city's LEOFF 1 retiree medical costs over future years. As the city's obligations for these costs are reduced, the utility tax rate will also be reduced, until such time that it is completely eliminated. As of December 31, 2013, the city's OPEB Trust Fund had accumulated a fund balance of \$893,524. Although the accumulated balance is not considered to be an OPEB contribution because of the fact that the city has not established an irrevocable trust, these funds are designated for the city's OPEB costs.

C. Annual OPEB Cost and Net OPEB Obligation

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

	2011	2012	2013
Annual Required Contribution (ARC)*	\$ 918,218	\$ 955,089	\$ 959,790
Interest on net OPEB obligation**	22,600	27,775	31,317
Adjustment to the ARC***	(29,508)	(36,871)	(40,889)
Annual OPEB cost (expense)	911,310	945,993	950,218
Contributions made	(796,313)	(867,294)	(635,341)
Increase in net OPEB obligation	114,997	78,699	314,877
Net OPEB obligation - beginning of year	502,227	617,224	695,923
Net OPEB obligation - end of year	\$ 617,224	\$ 695,923	\$ 1,010,801

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31, 2011, 2012 and 2013, respectively, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/13	\$950,218	66.9%	\$1,010,801
12/31/12	\$945,993	81.7%	\$695,923
12/31/11	\$911,310	87.4%	\$617,224

D. Funding Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$14,742,851 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,742,851. The covered payroll (annual payroll of active employees covered by the plan) for 2013 was \$112,576, and the ratio of the UAAL to the covered payroll was 13,095 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

The City of Kennewick used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

F. OPEB Trust Fund Financial Statements

Statement of Net Position
OPEB Trust Fund
December 31, 2013 (with comparative totals for 2012)

	Totals	
	2013	2012
ASSETS		
Equity in pooled cash & investments	\$ 832,369	\$ 472,699
Investments	-	-
Receivables, net	70,135	57,260
Total assets	902,504	529,959
LIABILITIES		
Accounts payable	8,980	7,435
Total liabilities	8,980	7,435
NET POSITION		
Held in trust for pension benefits and other purposes	\$ 893,524	\$ 522,524

Statement of Changes in Net Position
OPEB Trust Fund
For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Totals	
	2013	2012
ADDITIONS		
Contributions:		
Employer	\$ 1,002,882	\$ 967,135
Total contributions	1,002,882	967,135
Investment Earnings:		
Interest	3,459	1,854
Total investment earnings	3,459	1,854
Total additions	1,006,341	968,989
DEDUCTIONS		
Benefits	635,341	867,294
Total deductions	635,341	867,294
Change in net position	371,000	101,695
Net position - beginning	522,524	420,829
Net position - ending	\$ 893,524	\$ 522,524

NOTE 19 – ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST

A. Trust Description

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

Funding Policy

The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. In 2013, retirees of the City receiving medical benefits from the Trust contributed \$830.01 per month for non-Medicare enrolled retiree-only coverage, \$1,667.27 per month for non-Medicare enrolled retiree and spouse coverage, \$1,280.56 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$899.43 Medicare-enrolled retiree and spouse coverage. Participating employers are not contractually required to contribute at a rate assessed each year by the Trust for non-LEOFF I retirees. The retiree pays for 100% of the premium.

NOTE 20 - OTHER DISCLOSURES

Comparative Data/Reclassifications

Comparative total data for the prior year is presented on both government-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. In 2013, the City implemented changes to the standardized chart of accounts mandated by the Washington State Auditor’s Office. As a result, the Statement of Activities presents 2012 activity in line with the 2013 account structure.

For 2013 reporting, the City has adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. Balances presented for 2012 have been restated by category to comply with GASB 65. The Public Facilities District, a discretely presented component unit, reflects a reduction in beginning net position as a result of the implementation of GASB 65. There was no restatement of beginning net position for the primary government.

Proceeds the City received from a landfill settlement have been reclassified from a restricted net position in restricted for landfill settlement into a non-current liability account, landfill closure costs. These funds represent the City’s portion of a larger settlement that was agreed upon by the group of entities participating in the landfill clean up ordered by the Department of Ecology. The funds will be used for future legal costs or to offset additional clean-up efforts. 2012 balances were restated accordingly.

RSI – Required Supplementary Information

General Fund

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

For the Year Ended December 31, 2013

	2013/2014 Biennial Budgeted Amounts		Actual Biennium To-Date 12/31/13	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 21,469,940	\$ 21,469,940	\$ 10,658,861	\$ (10,811,079)
Sales	23,460,261	23,460,261	11,631,755	(11,828,506)
Utility	18,181,932	18,181,932	8,763,269	(9,418,663)
Gambling	1,837,000	1,837,000	726,917	(1,110,083)
Other	1,093,000	1,093,000	431,680	(661,320)
Licenses and permits	1,144,100	1,144,100	568,552	(575,548)
Intergovernmental	3,479,951	3,404,869	1,794,514	(1,610,355)
Charges for services	9,339,200	9,541,200	4,874,474	(4,666,726)
Fines and forfeitures	2,657,900	2,655,500	1,266,500	(1,389,000)
Investment earnings	150,000	150,000	21,019	(128,981)
Rents and leases	356,700	356,700	251,728	(104,972)
Miscellaneous revenues	438,900	511,700	304,684	(207,016)
Total revenues	83,608,884	83,806,202	41,293,953	(42,512,249)
EXPENDITURES				
Current :				
General government	16,282,099	16,382,668	7,931,920	(8,450,748)
Public safety	53,847,391	53,935,660	26,619,777	(27,315,883)
Transportation	3,102,094	3,102,094	1,592,498	(1,509,596)
Physical environment	523,359	523,359	253,144	(270,215)
Economic environment	2,234,577	2,256,327	1,033,398	(1,222,929)
Health	38,000	38,000	14,519	(23,481)
Culture and recreation	9,738,702	9,738,703	4,777,426	(4,961,277)
Capital outlay:				
General government	-	15,500	7,364	(8,136)
Public safety	-	-	65,204	65,204
Total expenditures	85,766,222	85,992,311	42,295,250	(43,697,061)
Excess (deficiency) of revenues over (under) expenditures	(2,157,338)	(2,186,109)	(1,001,297)	1,184,812
OTHER FINANCING SOURCES (USES)				
Transfers in	5,265,416	5,265,416	2,500,724	(2,764,692)
Transfers out	(3,510,000)	(3,689,828)	(1,928,046)	1,761,782
Total other financing sources and uses	1,755,416	1,575,588	572,678	(1,002,910)
Net change in fund balances	(401,922)	(610,521)	(428,619)	181,902
Fund balances - beginning	2,800,000	3,320,047	3,320,047	-
Fund balances - ending	\$ 2,398,078	\$ 2,709,526	\$ 2,891,428	\$ 181,902

See notes to required supplementary information.

RSI – Required Supplementary Information

Community Development Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	2013/2014 Biennial Budgeted Amounts		Actual Biennium To-Date 12/31/13	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,250,000	\$ 2,291,004	\$ 1,042,467	\$ (1,248,537)
Investment earnings	800	800	333	(467)
Total revenues	1,250,800	2,291,804	1,042,800	(1,249,004)
EXPENDITURES				
Current:				
Economic environment	1,000,000	1,958,454	556,476	(1,401,978)
Total expenditures	1,000,000	1,958,454	556,476	(1,401,978)
Excess (deficiency) of revenues over (under) expenditures	250,800	333,350	486,324	152,974
OTHER FINANCING SOURCES (USES)				
Transfers out	(250,000)	(332,550)	(232,549)	100,001
Total other financing sources and uses	(250,000)	(332,550)	(232,549)	100,001
Net change in fund balances	800	800	253,775	252,975
Fund balances - beginning	60,000	60,765	60,765	-
Fund balances - ending	\$ 60,800	\$ 61,565	\$ 314,540	\$ 252,975

See notes to required supplementary information.

RSI – Required Supplementary Information (Notes)

Notes to Required Supplementary Information

Note A - Explanation of Differences between Revenues, Expenditures, and Other Financing Sources (Uses)
for Budgetary Basis and GAAP Basis - General Fund
For the Year Ended December 31, 2013

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

RSI – Required Supplementary Information

Other Postemployment Benefits (LEOFF 1 Retiree Medical)

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

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

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

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

*January 1, 2008 represented the first valuation for the City's LEOFF 1 Retiree Medical OPEB plan. As a result, only two dates are listed in the schedule of funding progress.

RSI – Required Supplementary Information

Firemen's Pension Fund

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

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

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	\$ 716	\$ 2,204	\$ 1,488	32%	\$ -	0%
January 1, 2010	531	2,038	1,507	26%	-	0%
January 1, 2008	338	2,321	1,983	15%	-	0%

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
2012 Community Development Block Grant (Direct)	14.218	B-12-MC-53-0001	\$ 533,627
2013 Community Development Block Grant (Direct)	14.218	B-13-MC-53-0001	<u>177,916</u>
Total CFDA Number	14.218		711,543
Passed through City of Richland: HOME Program	14.239	M-13-DC-53-0202	<u>77,032</u>
Total U.S. Dept of Housing and Urban Development			<u>788,575</u>
<u>U.S. Department of Homeland Security</u>			
Assistance to Firefighters Grant	97.044	EMW-2011-FO-09975	88,208
<u>U.S. Department of Justice</u>			
Bulletproof Vest Partnership Program	16.607	2013BUBX13066077	3,938
Project Safe Neighborhoods	16.609	F11-34023-021	18,717
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJBX-524	12,477
	16.738	2013-DJBX-0209	<u>24,189</u>
Total CFDA Number	16.738		36,666
Passed through Metro Drug Task Force: Organized Crime Drug Enforcement Task Forces (OCDETF) - DEA	16.999	PA-WAW-0261	233
U.S. Marshals Service - Fugitive Task Force	16.999	0324A A3403FWF4014R	12,753
Federal Bureau of Investigation - Tri City Violent Crime Task Force	16.999	281D-SE-C93759	<u>14,279</u>
Total CFDA Number	16.999		<u>27,265</u>
Total U.S. Dept of Justice			<u>86,586</u>
<u>U.S. Department of Transportation</u>			
State and Community Highway Safety	20.600		7,394
Occupant Protection Incentive Grants	20.602		<u>1,661</u>
Total Department of Transportation			<u>9,055</u>
<u>Federal Highway Administration</u>			
Highway Planning and Construction Recovery	20.205	STPUS-3453(003)	9,786
Passed-through WA State Dept of Transportation:	20.205	STPD-3453(004)	89,989
Highway Planning and Construction	20.205	HSIP-3406(009)	226,092
	20.205	HSIP-3409(005)	1,357
	20.205	HSIP-000S(317)	16,678
	20.205	STPUL-9903(011)	903,090
	20.205	STPUL-3532(001)	2,792
	20.205	STPUL-3421(003)	374,595
	20.205	BHM0610(003)	<u>3,213</u>
Total CFDA Number	20.205		<u>1,627,592</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,600,016</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the Edward Byrne Memorial Justice Assistance Grant Programs is \$12,477 and \$12,095 that was passed through to subrecipients that administered their own projects.



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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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