Washington State Auditor's Office
Troy Kelley
Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Kent

King County

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

Published September 30, 2014

Report No. 1012755

Washington State Auditor
Troy Kelley

September 30, 2014

Mayor and City Council
City of Kent
Kent, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Kent'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,

TROY KELLEY

STATE AUDITOR

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Federal Summary

City of Kent
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The results of our audit of the City of Kent 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 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 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:

CFDA No.	Program Title
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
97.042	EMPG - Emergency Management Performance Grant

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.

Schedule of Federal Audit Findings and Questioned Costs

City of Kent
King County
January 1, 2013 through December 31, 2013

1. The City did not have internal controls in place to ensure compliance with Federal subrecipient monitoring requirements.

CFDA Number and Title:	97.042 Emergency Management Performance Grant
Federal Grantor Name:	Department of Homeland Security
Federal Award/Contract Number:	EMW-2012-APP-00071
Pass-through Entity Name:	Military Department
Pass-through Award/Contract Number:	E12-322
Questioned Cost Amount:	$0

Description of Condition

The Emergency Management Performance Grant (EMPG) program provides resources to assist governments in preparing for all hazards, as authorized by Section 662 of the Post Katrina Emergency Management Reform Act and the Robert T. Stafford Disaster Relief and Emergency Asistance Act**.** The federal government, through the EMPG program, provides necessary direction, coordination, and guidance, and provides necessary assistance, as authorized to support a comprehensive all hazards emergency preparedness system.

The City received $104,471 in EMPG funds from the Military Department, which it passed through to the Kent Fire Department Regional Fire Authority (RFA), a separate legal entity, for costs related to the program. The RFA was not eligible to apply for these funds directly. The City has an inter-local agreement with the Kent Regional Fire Authority to provide emergency management services on the City's behalf.

Federal regulations require the City to monitor the RFA to ensure federal funds are used for authorized purposes.

Our audit found the City did not perform subrecipient monitoring as required. We consider this to be an internal control deficiency that is a material weakness.

Cause of Condition

City management considered the grant agreement with the Military Department a three-party grant agreement between the City of Kent, Kent Fire Department Regional Fire Authority, and the State agency and does not consider the City's participation in the agreement to have established its responsibility for subrecipient monitoring requirements.

Effect of Condition and Questioned Costs

The City did not have internal controls in place, nor did it perform subrecipient monitoring activities over the program as required. By not performing the required activities, the City cannot ensure the RFA used program funds in accordance with the grant agreement and federal compliance requirements.

Recommendation

We recommend the City:

- Provide training to personnel to ensure they have an adequate understanding of federal subrecipient monitoring requirements.

- Establish and implement adequate controls to ensure subreceipient monitoring requirements are being met.

City's Response

The City of Kent concurs that it did not have adequate internal controls in place to ensure compliance with federal subrecipient monitoring requirements with respect to the Kent Fire Department Regional Fire Authority's administration of the Emergency Management Performance (EMPG) award.

However, as outlined below, the City does not believe this represents a material weakness. In addition, the City does not concur with certain statements and characterizations included in the audit finding.

The City of Kent respectively requests that the State Auditor's Office confer with the Military Department to authorize its award of these grants directly to Washington regional fire authorities and fire protection districts. A direct award by the Military Department to the Kent Fire Department Regional Fire Authority (RFA) would have prevented this issue in the first place. Further, such action addresses the OMB Circular A-133 requirement that grant recipients and employees performing key grant administrative and financial tasks fully understand the terms and conditions of the award.

<u>State Auditor's Office Material Weakness Determination:</u>
The City believes this condition at most qualifies as a significant deficiency, but not as a material weakness. This assessment is based on the relationship between the Grantor

Agency (Military Department), the Grantee (the City) and the Sub-grantee (Kent Fire Department RFA), and the extensive monitoring work performed by the Grantor Agency.

Key considerations:

1. *The Inter-local Agreement effective July 1, 2010 between the City and the Kent Fire Department RFA includes a provision requiring the RFA to, "apply for and manage all disaster recovery grants, Emergency Performance Grants, and other public assistance grants."*

2. *The Homeland Security Grant Agreement is a three-party agreement between the Military Department, the City of Kent, and the Kent Fire Department Regional Fire Authority. Typically, there are two separate agreements for sub-grant situations: Grantor Agency and Grantee, and the Grantee and Sub-grantee.*

   In an e-mail dated September 4, 2014 to the Kent Fire Department RFA, the Military Department advised that EMPG awards are for counties, cities and tribes with emergency management programs and, as such, the Military Department only contracts with those entities. Further, the Military Department confirmed that it was aware that the Kent Fire Department RFA was a separate organization (and not a department of the City).

   Therefore, one of the reasons this was a three-party agreement was because the Military Department was precluded from awarding this grant directly to the Kent Fire Department RFA. Unfortunately, the City was put in the position of having to monitor a federal award the requirements of which it does not have the prerequisite knowledge or experience.

3. *The Homeland Security Grant Agreement included the following key provisions speaking to the direct relationship between the Grantee Agency and the Sub-grantee:*

   - *Article I Key Personnel defines the sub-grantee as the Kent RFA not the City of Kent and, further, only lists Kent RFA and Military Department personnel.*

   - *Article VIII Sub-Grantee Monitoring states, in part, "The Department will monitor the activities of the Sub-grantee from award to close-out." Further, it states, in part, "Monitoring activities may include, observation and documentation of Grant Agreement related activities, such as exercises, training, funded events and equipment demonstrations."*

4. *The Military Department Emergency Management Division conducted a comprehensive monitoring visit at the Kent Fire Department RFA. The City of*

Kent was not involved in this monitoring visit. The Monitoring Report dated January 2, 2014 included the following key sections:

- *Monitoring Report Checklist*
- *Authority to Monitor*
- *Monitoring Guidelines*
- *Monitoring General Information, including "Back-up Documentation Requested"*
- *Homeland Security Grant Agreement Face Sheet*
- *Special Terms and Conditions, including identification of key personnel and sub-grantee monitoring*
- *Monitoring Summary and Feedback*

The following key definitions were included in this report:

- *"Department" means the Washington State Military Department*
- *"Grantee" means the City of Kent ("government to which a grant is awarded")*
- *"Subgrantee" means the Kent Fire Department RFA ("government to which a sub-grant is awarded and which is accountable to the Grantee for the use of the funds provided under the Grant Agreement")*

The Authority to Monitor section stated, in part, "The State of Washington Military Department Emergency Management Division (EMD), as the federal and state grantee, is charged with the fiduciary responsibility to monitor the activities of sub-grantees from award to close-out, and for the life of any equipment purchased with grant match funds."

The Monitoring Summary and Feedback section stated, in part:

> *There were no major areas of concern for the sub-grantee. Clarifying conversations were had in reference to EHP requirements and equipment requests. We also discussed how submitting reimbursement requests more frequently will provide a better opportunity to monitor their budget and allow for more time to make any budget modifications. This will minimize variance issues at the end of performance period.*

In summary, while it is correct that the City of Kent has a subrecipient monitoring responsibility with respect to the administration of this grant, the likelihood of non-compliance with any of the remaining 13 areas of federal grant compliance, e.g.

reporting, is remote given the Military Department's extensive monitoring of this award. Therefore, the adverse impact of this audit concern is minimal. In fact, as reported by the grantor agency (Military Department) in its Monitoring Report dated January 2, 2014, "There were no major areas of concern for the sub-grantee."

Other Observations:
The City does not concur with certain statements and characterizations included in the audit finding. Specifically:

1. *The report incorrectly states that the Interlocal Agreement only includes emergency management services. Under the terms and conditions of the ILA, the Kent RFA also provides for the City fire prevention and fire investigation services. The ILA also provides that the City provides various services for the Kent RFA, including Civil Service Examiner services.*

2. *The report incorrectly states the cause of the condition. The underlying cause of this condition was requirement to include the City as a party to the three-party agreement given the extensive involvement of the Military Department in performing subrecipient monitoring activities.*

   In accordance with OBM Circular A-133 requirements, individuals performing key functions with respect to the administration of federal awards must be aware of the federal requirements associated with their duties in administering federal programs. City of Kent personnel do not possess such prerequisite understanding which one of the reasons why the Kent Fire Department RFA administered this program. For example, a Kent Fire Department RFA employee rather than a City employee prepared the grant reimbursement invoices and related support on behalf of the City of Kent.

3. *The comment, "City management considered the grant a three-party agreement", is not correct. As outlined above, including as acknowledged in writing by the Military Department, this is in fact a three-party agreement.*

The City looks forward to continuing to work in partnership with the State Auditor's Office in ensuring that it complies with all requirements governing the administration of federal programs.

Auditor's Remarks

The State Auditor's Office is committed to working in partnership with the City to ensure the accountability for the use of public funds. During our audit we have considered the information provided by the City and have had communications with the Washington State Military Department. However, the information did not absolve the City of its responsibility to comply with the subrecipient monitoring requirements.

We reaffirm our finding and will review the City's correction action during our next audit.

Applicable Laws and Regulations

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

Section .300-Auditee responsibilities.

The auditee shall:

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

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

Section .400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

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

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

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

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

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

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Federal Audit Findings and Questioned Costs

City of Kent
King County
January 1, 2013 through December 31, 2013

2. The City's internal controls were not adequate to ensure compliance with Community Development Block Grant Federal Funding Accountability and Transparency Act of 2006 (FFATA) reporting requirements.

CFDA Number and Title:	14.218 Community Development Block Grant
Federal Grantor Name:	U.S. Department of Housing and Human Services
Federal Award/Contract Number:	B-13-MC-53-0017
Pass-through Entity Name:	None
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

During 2013, the City received $807,439 of Community Development Block Grant (CDBG) funding provided by the U.S. Department of Housing and Urban Development. The City passed through $162,175 in grant funds to subrecipients. Grant funding may be used to benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency.

The Federal Funding Accountability and Transparency Act of 2006 (FFATA) requires grantees to report subawards to subrecipients for amounts of $25,000 or more. They must report each subaward by the end of the month following the month in which it was granted. During our audit we found the City did not have sufficient internal controls in place to ensure the fiscal year 2013 Accountability Act reports were filed. The City did not report the two subawards made during the audit period.

Cause of Condition

City staff did not understand the requirement to report subawards over $25,000 under the accountability act was an on-going requirement. We consider this control deficiency to be a material weakness in internal controls.

Effect of Condition and Questioned Costs

By not correctly submitting the required Accountability Act reports, the federal government's ability to ensure transparency and accountability of federal spending is diminished.

Recommendation

We recommend the City:

- Provide training to personnel to ensure they have an adequate understanding of federal requirements.

- Ensure required reports are accurately compiled, reviewed and submitted in a timely manner.

City's Response

The City of Kent acknowledges that internal controls were not adequate to ensure that data entry into the Federal Funding Accountability and Transparency Act Sub Award Reporting System (FSRS) was completed in a timely manner in accordance with federal requirements.

However, as outlined below, the City does not believe this represents a material weakness.

The City administers a significant number of new and reoccurring federal programs including those with multiple reporting requirements. The City historically has not had audit concerns in this area.

In this case, the City filed the FSRS report for 2011, but not 2012 or 2013. There was one change from the 2011 report: The City funded a second activity for a sub-grantee increasing its grant to $25,000 for 2013. The City submitted all other HUD required reports associated with the administration of the CDBG program properly and timely.

On September 19, 2014 appropriate City personnel attempted to create the FSRS report on the FSRS reporting website. Unfortunately, the system would only allow staff to copy a previous report rather than report new information. City personnel immediately requested assistance from the website's technical assistance team and was told HUD had not entered the required data. The City maintained copies of the technical assistance emails and correspondence with the city's HUD representative as evidence of its attempts to resolve this issue.

On September 25, 2014 the City filed the FSRS report.

State Auditor's Office Material Weakness Determination:

The City believes this condition at most qualifies as a significant deficiency, but not as a material weakness. This assessment is based on the fact this was one of four reports that are required annually. Specifically:

- *SF-425 Federal Financial Report.*
- *Integrated Disbursements and Information (IDIS), including the Activity Summary Report and CDBG Financial Summary report.*
- *Consolidated Annual Performance and Evaluation Report (CAPER).*
- *Subaward Reporting under the Transparency Act (FFATA report).*

The City fully complied with the federal reporting requirements governing all of these reports except the FFATA report. Specifically, all other reports were, and continue to be, submitted in a timely manner. Further, the FFATA report is a duplication of information provided to HUD through the Integrated Disbursement Information System (IDIS). Therefore, the failure to submit this report is not indicative of "a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis."

The City looks forward to continuing to work in partnership with the State Auditor's Office in ensuring that it complies with all requirements governing the administration of federal programs.

Auditor's Remarks

The State Auditor's Office is committed to working in partnership with the City to ensure the accountability for the use of public funds. The activity subject to the FFATA reporting requirement represents 20 percent of the City's federal expenditures. As a result, in accordance with auditing standards, the identified deficiency represents a material weakness..

We look forward to reviewing the City's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts

> or grant agreements that could have a material effect on each of its Federal programs.
> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

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

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

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

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

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

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: …
>
> > Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
> >
> > Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Title 2, Code of Federal Regulations, APPENDIX A TO PART 170 – AWARD TERM, provides, in part:

> I. Reporting Subawards and Executive Compensation.
>
> > a. *Reporting of first-tier subawards.*

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub.

L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. *Where and when to report.*

i. You must report each obligating action described in paragraph a.1. of this award term to *http://www.fsrs.gov.*

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

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 Kent
King County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kent
Kent, 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 Kent, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We also noted certain additional matters that we have reported to the management of the City in a separate letter dated September 26, 2014.

COMPLIANCE AND OTHER MATTERS

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

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

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

September 26, 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 Kent
King County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kent
Kent, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Kent, King 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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be material weaknesses.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 26, 2014

Independent Auditor's Report on Financial Statements

City of Kent
King County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kent
Kent, 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 Kent, King 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 26.

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 Kent, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, 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 27 through 42, information on postemployment benefits other than pensions on page 111 and pension trust fund information on page 112 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 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 X. Kelley

TROY KELLEY
STATE AUDITOR

September 26, 2014

Financial Section

City of Kent
King 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
Statement of Activities – 2013
Balance Sheet – Governmental Funds – 2013
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2013
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2013
Statement of Net Position – Proprietary Funds – 2013
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013
Statement of Cash Flows – Proprietary Funds – 2013
Statement of Fiduciary Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013
Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's Relief and Pension System – 2013
Retirement Health Care Benefits – LEOFF 1 Retirement System – Schedule of Funding Progress – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

This discussion and analysis of the City of Kent's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS:

- Net position ($1.03 billion) increased by $36 million or 3.6 percent from 2012 restated levels, comprised of a $16.9 million or a 2.4 percent increase resulting from governmental activities and a $19.1 million or 6.7 percent increase as a result of business-type activities. Approximately $71.3 million or 6.9 percent of the net position may be used to meet the City's ongoing obligations to citizens and creditors.

- Net Property, Plant and Equipment ($1.1 billion) decreased by $1.1 million or 0.1 percent from 2012 restated levels.

- Long-term debt ($146.4 million) decreased by $14.1 million or 8.8 percent from 2012 levels. The reduction was due to debt payments and the refinancing of a note from the City of Tacoma.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the City of Kent's basic financial statements. The City of Kent's basic financial statements comprise 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.

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

The statement of net position presents information on all of the City of Kent's assets and liabilities, except fiduciary funds, with the difference between the two reported as net position. Over time, increases or decreases in net position provide a useful indicator as to the direction of the City's financial condition.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years (e.g., uncollected property tax revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Kent that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Kent include general government, judicial, public safety, community development, public works, leisure services, and health and human services. The business-type activities of the City of Kent include water and sewerage utilities and a municipal golf complex.

The government-wide financial statements include not only the City of Kent itself (known as the primary government), but also the Special Events Center Public Facilities District. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 21-23 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kent, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kent can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrow and it is useful to compare the information provided by the government-wide financial statements for government activities with the governmental funds statement. This may give the reader a better understanding of how long-term impacts are affected by near-term financing decisions. In order to facilitate this comparison, a reconciliation is provided on the fund statements, reconciling net position to fund balances.

The City maintains 16 individual governmental funds. Information is provided separately for five funds that the City considers to be major funds, and combines the other 11 funds into one column for a single aggregated report. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The five major funds are the General Fund, Capital Improvement Fund, Special Assessments Fund, Non-Voted General Obligation Debt Fund, and Street Capital Projects Fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided, within the basic financial statements, for the general fund to demonstrate compliance with this budget.

The governmental major funds financial statements are found on pages 24-31 of this report.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the activities that are business-like in nature, and are included in the business-type activities in the government-wide financial statements. Enterprise funds primarily serve customers outside of the governmental unit. The City maintains three Enterprise funds: (1) Water Fund, (2) Sewerage Fund (Sewer and Storm Drainage utilities) and (3) Golf Complex Fund. Internal service funds are used to report business-type functions that operate internally within the City and allocate their services to the City's various functions. The City maintains four Internal Service Funds: (1) Equipment Rental Fund,

(2) Central Services Fund (postage, central stores, copiers, print shop, cable media services, telephone services, and data processing services), (3) Facilities Fund, and (4) Insurance Fund (unemployment, workers' compensation, medical and dental, liability and property). Since these services mainly benefit governmental rather than business-type functions, their assets and liabilities have been included within governmental activities in the government-wide financial statement of net position, but their functions are prorated as to their usage between governmental and business-type activities in the government-wide financial statement of activities.

Proprietary funds provide detailed information of the same type of information found in the government-wide financial statements. The City reports each enterprise fund as a major fund, and includes the internal service funds in a single column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 110-117.

The basic proprietary fund financial statements can be found on pages 34-43 of this report.

Fiduciary funds. 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 Kent's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains several trust funds, as well as a pension fund instituted for firefighters who were employed by the City prior to March 1, 1970.

The basic fiduciary fund financial statements can be found on pages 44-45 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements. The notes can be found on pages 48-93 of this report.

Other information. This report also includes required supplementary information concerning the City of Kent's progress in funding its pension benefit obligations and employer contributions to its Firemen's Relief and Pension Fund. In addition, it provides information on the funding of the other post-employment benefits (including long-term care). This information can be found on pages 95-96 of this report.

Combining statements for non-major governmental funds are also presented on pages 98-105 immediately following the other information mentioned above. Included with the combining statements are budgetary comparison schedules for the Public Safety Retiree Fund, the Lodging Tax Fund and the Youth/Teen Fund, which are found on pages 106-108. The combining statements for the agency funds are found on pages 121-125 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Kent, assets and deferred inflows exceeded liabilities and deferred outflows by $1.03 billion on December 31, 2013.

By far the largest portion of the City of Kent's net position ($947.8 million or 91.7 percent) reflects its investment in capital assets (e.g. land, buildings, infrastructure, site improvements, and equipment) less depreciation and any related outstanding debt used to acquire or construct those assets. The City of Kent uses these capital assets to provide services to its citizens; consequently, it is not the City's intention to sell these assets and they are therefore not available for future spending. Although the City of Kent's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not intended be used to liquidate these liabilities.

CITY OF KENT'S NET POSITION
As of December 31*
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other Assets	$ 72,753	$ 45,434	$ 47,683	$ 43,589	$ 120,436	$ 89,023
Capital Assets	761,533	771,937	322,987	313,721	1,084,520	1,085,658
Total Assets	834,286	817,371	370,670	357,310	1,204,956	1,174,681
Deferred Outflows	533	671	-	-	533	671
Total Assets & Deferred Outflows	834,819	818,042	370,670	357,310	1,205,489	1,175,352
Liabilities						
Long-term Debt	85,179	92,277	61,200	67,707	146,379	160,484
Other Liabilities	20,742	13,266	4,837	4,100	25,579	17,366
Total Liabilities & Deferred Inflows	105,921	106,043	66,037	71,807	171,958	177,850
Net Position						
Net Investment in Capital Assets	682,946	685,712	264,927	253,753	947,873	939,465
Restricted	10,722	10,288	3,631	2,463	14,353	12,751
Unrestricted	35,230	15,999	36,075	29,287	71,305	45,286
Total Net Position	$ 728,898	$ 711,999	$ 304,633	$ 285,503	$1,033,531	$ 997,502

* 2012 numbers restated for prior period adjustments

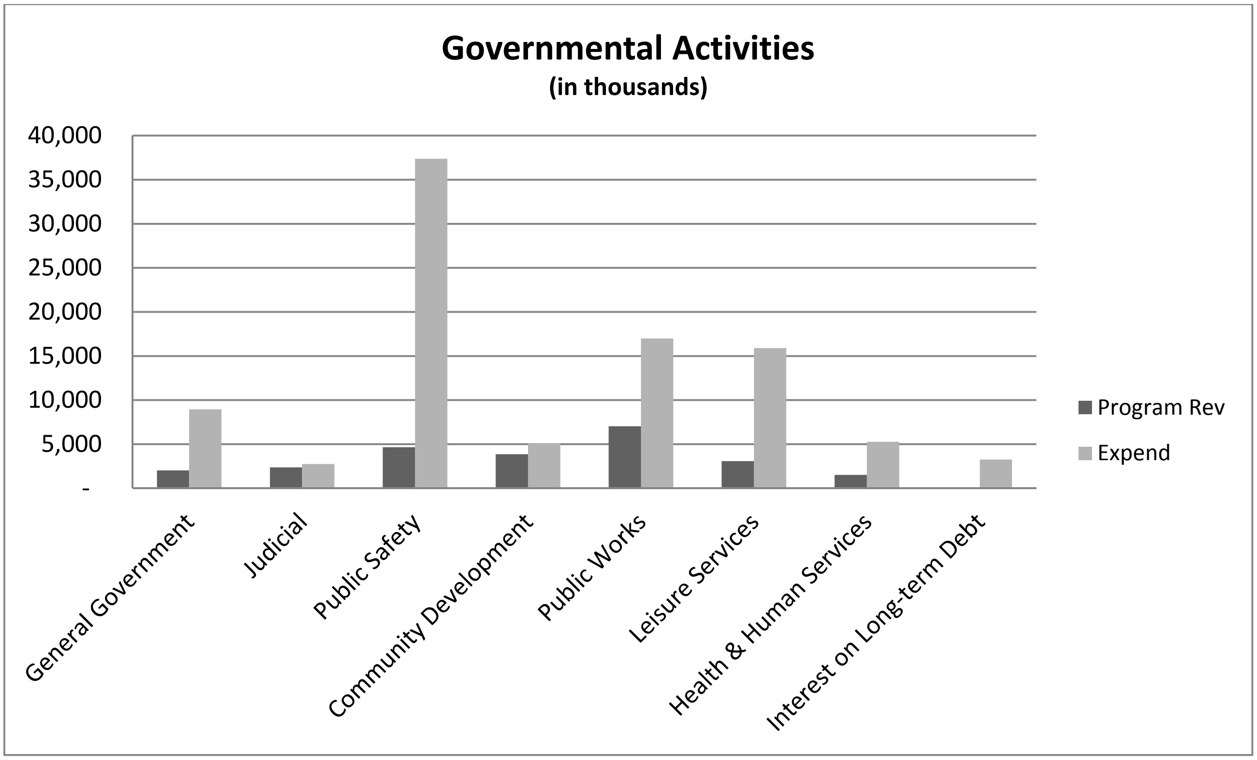
Of the City of Kent's net position, 1.4 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $71.3 million (6.9 percent), may be used to meet the city's ongoing obligations to citizens and creditors.

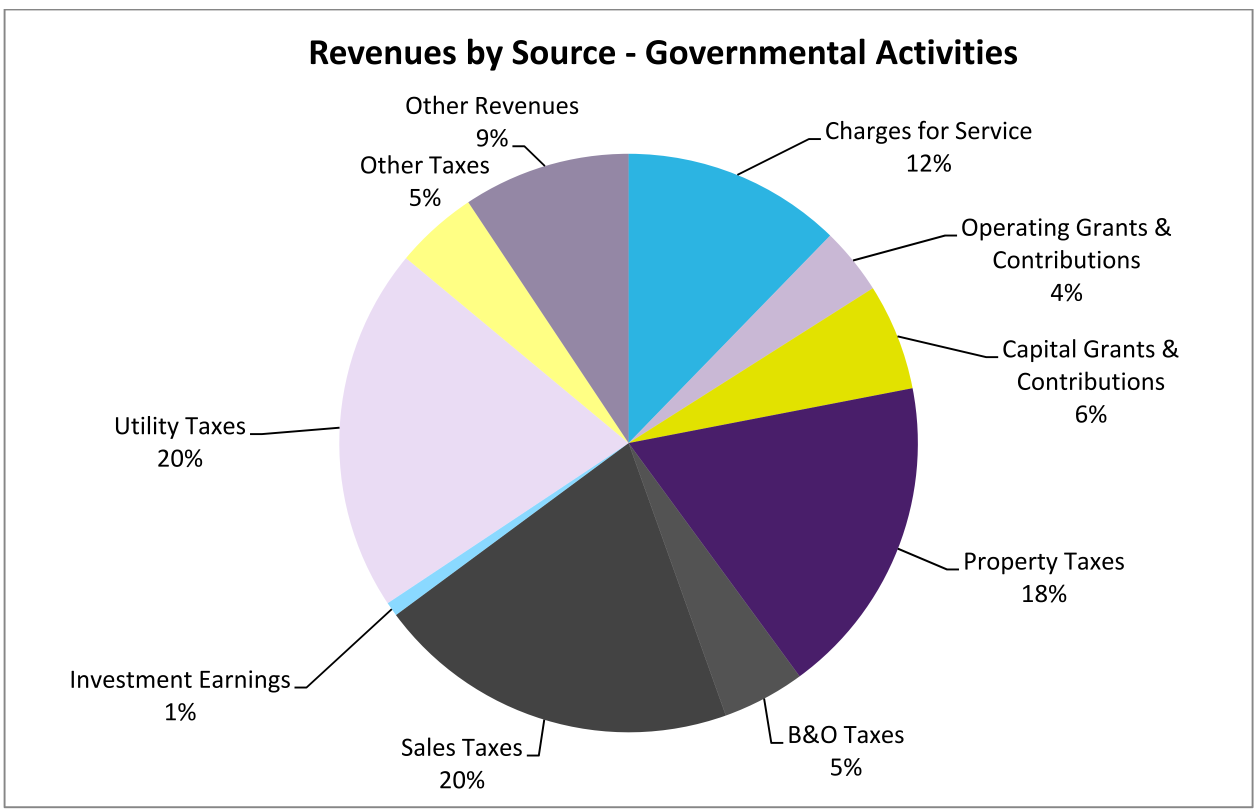
The following table and graphs show the changes in net position, a comparison of program costs and revenues, composition of the revenues. Following the graphs is a discussion of the various revenue streams for the City.

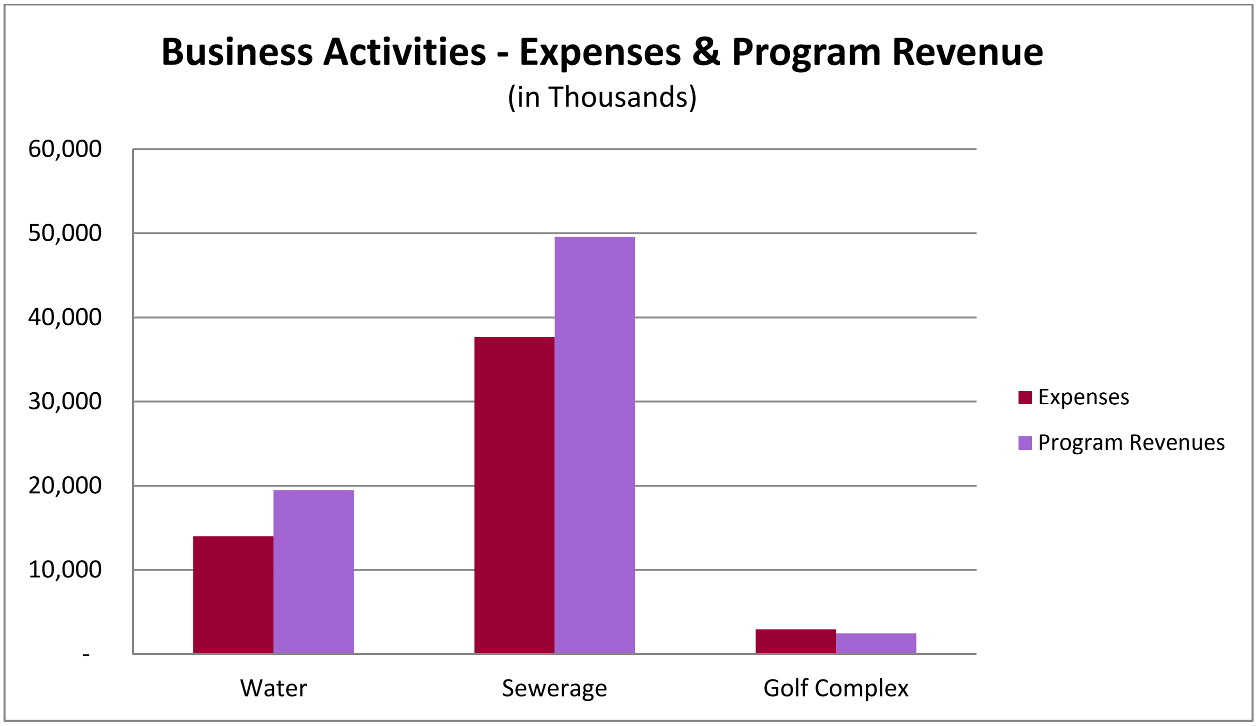
CITY OF KENT'S CHANGES IN NET POSITION
For the Years Ended December 31*
(in thousands)

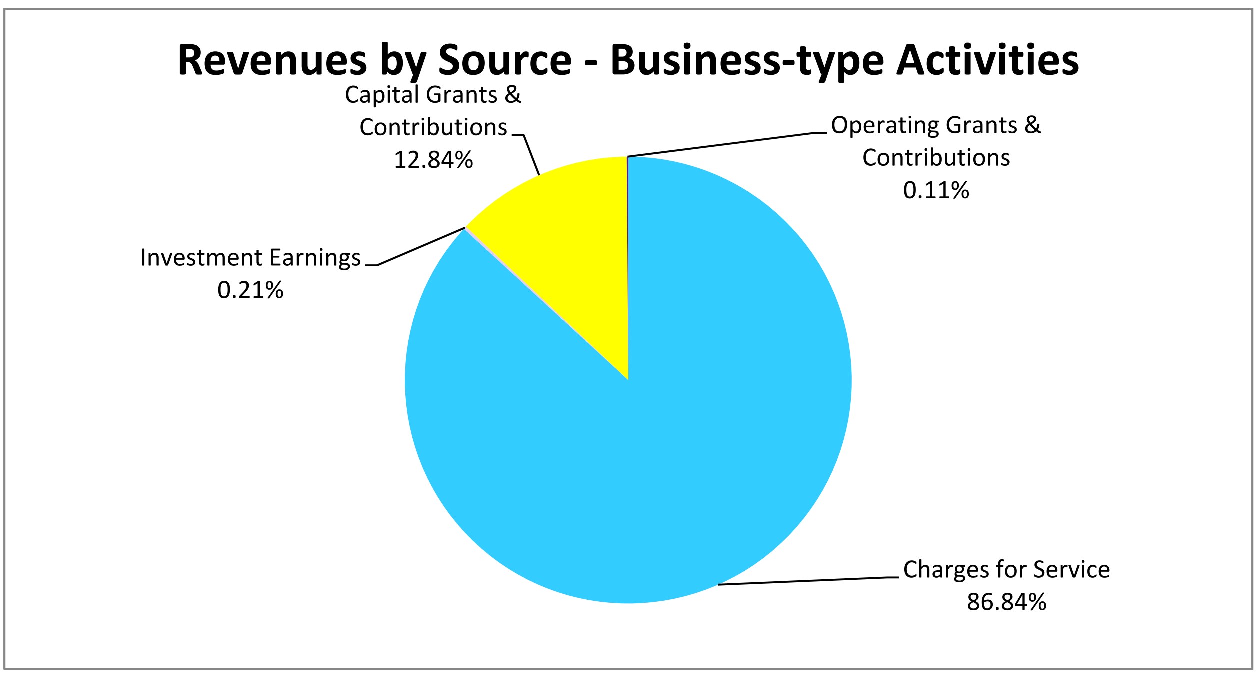
	Governmental Activities 2013	Governmental Activities 2012	Business-Type Activities 2013	Business-Type Activities 2012	Total Primary Government 2013	Total Primary Government 2012
Revenues:						
Program Revenues:						
Charges for Service	$ 13,708	$ 11,858	$ 62,206	$ 58,385	$ 75,914	$ 70,270
Operating Grants	4,177	4,125	81	771	4,258	4,896
Capital Grants	6,656	11,077	9,195	5,544	15,851	16,621
General Revenues:						
Taxes:						
Property Taxes	20,085	19,735	-	-	20,085	19,735
Sales Taxes	22,707	21,908	-	-	22,707	21,908
Utility Taxes	22,760	19,869	-	-	22,760	19,869
Business & Occupation Taxes	5,149	-	-	-	5,149	-
Other Taxes	5,157	4,853	-	-	5,157	4,853
Unrestricted Grants	6,760	6,846	-	-	6,760	6,846
Investment Earnings	896	701	154	79	1,050	780
Miscellaneous	3,687	4,907	-	-	3,687	4,907
Total Revenues	111,742	105,906	71,636	64,779	183,378	170,685
Expenses:						
General Government	8,959	6,352	-	-	8,959	6,652
Judicial	2,744	2,794	-	-	2,744	2,794
Public Safety	37,377	37,341	-	-	37,377	37,341
Community Development	5,097	5,333	-	-	5,097	5,333
Public Works	16,994	17,428	-	-	16,994	17,428
Leisure Services	15,909	16,844	-	-	15,909	16,844
Health & Human Services	5,275	5,553	-	-	5,275	5,553
Interest on Long-Term Debt	3,250	3,779	-	-	3,250	3,779
Water Utility	-	-	13,973	12,949	13,973	12,949
Sewerage Utility	-	-	37,681	36,392	37,681	36,392
Golf Complex	-	-	2,918	3,063	2,918	3,063
Total Expenses	95,605	95,424	54,572	52,404	150,177	147,828
Increase in Net Position before Transfers & Special Items	16,137	10,482	17,064	12,375	33,201	22,857
Transfers	762	110	(762)	(110)	-	-
Special Item	-	-	2,828	-	2,828	-
Increase in Net Position	16,899	10,592	19,130	12,265	36,029	22,857
Net Position – January 1 – restated*	711,999	701,407	285,503	273,238	997,502	974,645
Net Position – December 31	$ 728,898	$ 711,999	$ 304,633	285,503	$1,033,531	$ 997,502

* 2012 numbers restated for prior period adjustments


Governmental Activities
(in thousands)
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
General Government
Judicial
Public Safety
Community Development
Public Works
Leisure Services
Health & Human Services
Interest on Long-term Debt
Program Rev
Expend


Revenues by Source - Governmental Activities
Other Revenues 9%
Other Taxes 5%
Charges for Service 12%
Operating Grants & Contributions 4%
Capital Grants & Contributions 6%
Utility Taxes 20%
Property Taxes 18%
Investment Earnings 1%
Sales Taxes 20%
B&O Taxes 5%





Governmental activities. Governmental activities net position increased $16.9 million (2.4 percent) in fiscal year 2013. Some key revenue and expenditure highlights of governmental activities for fiscal year 2013 are as follows:

- *Taxes* – Property Taxes ($20.1 million), Sales & Use Taxes ($22.7 million), Utility Taxes ($22.8 million), and Other Taxes ($5.2 million) increased by $.4 million or 1.8 percent, $.8 million or 3.6 percent, $2.9 million or 14.6 percent, and $.3 million or 6.3 percent, respectively as the economy continues slow growth. The City began collecting business & occupation taxes in 2013 adding $5.1 million in tax revenues as well as a new 6 percent cable utility tax with $1.7 million in revenue. During the recession the City saw a reduction of 70% in Real Estate Excise Tax (REET). During 2013, the commercial real estate market continued to grow at a steady and constant pace. The largest impact to our REET is the sale of property with a sales price of more than $1 million dollars. During 2013 there were 41 of those sales totaling $403.5 million as compared to 2012 where there were 44 of those sales totaling $370.3 million.

- *Investment Earnings* ($.9 million) increased by $.2 million or 27.8 percent. Although rates have remained fairly constant during 2013 the increase in investment earning is the result of increased funds available for investing.

- *Charges for Service program revenues* ($13.7 million) increased by $1.8 million or 15.6 percent, with the largest increases in Public Safety, Community Development and Public Works.

  - Public Safety increase ($.7 million) was $.3 million in increased permit/inspection fees and $.4 million in increased fees and charges, primarily due to fee increases.
  - Community Development revenues increased $.6 million due to increasing permit and other building related fees as construction continues to recover coupled with the 2012 fee restructuring and increases in some fees beginning in fiscal year 2013.
  - Public Works revenues increased $.4 million primarily due to increased street impact fees. Just as we saw Community Development revenues increase as the result of the improved economy evidenced by the improvement in the construction industry, the City has realized an increase in revenue related to street impact fees of $.3 million as compared to 2012.

- *Grants and Contributions* –operating grants and contributions increased $.1 million and capital grants decreased by $4.4 million. The decrease in capital grants was in Public Works ($4.6 million) offset by an increase in Leisure Services ($.2 million). The Public Works decrease was due to large Federal Highway Grants received in 2012 while Leisure Services was additional parks capital grants and donations and contributions.

- Governmental Activities expenses increased $.2 million with General Government increasing $2.6 million while Community Development, Public Works, Leisure Services and Health and Human Services decreased $.2 million, $.4 million, $.9 million and $.3 million respectively. Interest on long-term debt also decreased $.5 million with lower debt payments and no allocation of bond issuance costs in 2013.

  - *General Government expenses* ($9.0 million) increased by $2.6 million or 41.1 percent as compared to 2012. This is due to a $1.9 million increase in depreciation expense and $.7 million increase in salaries and benefits, and services. The increase in depreciation reflects one year depreciation of a capital technology project.

  - *Public Works expenses* ($17.0 million) also decreased $.4 million, primary due to lower salaries and benefits as a result of savings related to vacant positions.

- *Leisure Services expenses* ($15.9 million) decreased $.9 million representing the reduced amount paid by the City for the operating losses incurred at the ShoWare Center. The ShoWare Center brought in more shows and had a great hockey season during 2013 which reduced their operating loss.

Business-type activities. Business-type activities net position increased $19.1 million (6.7 percent) in fiscal year 2013. Key highlights of the change in net position are as follows:

- *Charges for Service (Operating Revenues)* ($62.2 million) increased by $3.8 million or 6.5 percent. The increase was due to rate increases in both Water Utility and Sewerage Utility revenue resulting in a $.7 million and a $3.2 million increase, respectively while Golf Complex charges for service decreased $.1 million. Refer to the analysis of the Proprietary Funds for further detail.

- *Operating Grants/Contributions* ($.1 million) decreased by $.7 million or 10.5 percent primarily the result of grants in the Sewerage Fund that were completed in 2012.

- *Capital Grants/Contributions* ($9.2 million) increased $3.6 million (65.8 percent). While the Water Fund increased $.5 million due to increased capital contributions and connection and system development fees, the Sewerage Fund increased $3.1 million with grant monies received from the State Department of Ecology and King County for drainage infrastructure.

- *Expenses* – Water fund expenses ($13.9 million) increased $1.0 million (7.9 percent) while Sewerage Fund expenses ($37.7 million) increased $1.3 million (3.5 percent). Refer to the analysis of the Proprietary Funds for further detail.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

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

Governmental Funds. The focus of the City of Kent's governmental funds is to provide information on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing the government's near-term financing requirements.

At the end of the current fiscal year, the City of Kent's governmental funds reported combined ending fund balances of $19.2 million, an increase of $16.9 million in comparison with the prior fiscal year. Of this amount, the unassigned fund balance is a deficit of $2.2 million. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form ($.1 million), 2) restricted for particular purposes ($13.0 million), 3) committed for particular purposes ($5.6 million), or assigned for particular purposes ($2.7 million).

The *General Fund* is the chief operating fund of the City of Kent. At the end of the current fiscal year, fund balance of the General Fund was $8.3 million, representing a $5.9 million or 250.3 percent increase from 2012. During 2011, the City implemented GASB 54. As a result, for reporting purposes, the General Fund is now comprised of the General Fund along with three funds once considered Special Revenues of the City (Public Safety Retiree Fund, Operating Grants and Projects Fund, and the Kent Events Center Fund). For budgetary purposes, these special revenue funds are still separate from the General Fund. Factors affecting the General Fund's ending fund balance include:

- Total General Fund revenues increased $4.1 million (5.7 percent) from the previous year, generally due to continued slow economic growth, some fee increases, and implementation of the business and occupation tax of which the General Fund received $0.3 million.

- Property taxes of $20.1 million were up $.3 million from the previous year due to an increase in the tax rate, in addition to some new construction.

- Sales and use taxes ($15.8 million) increased $.4 million with continued slow economic growth.

- Utility taxes ($17.7 million) increased $1.6 million. A portion of the new cable utility tax ($.3 million) is allocated to the General Fund. The majority of the utility tax increase was in the water, sewer and drainage categories due to the City dedicating one percent of a newly imposed three percent tax increase on City utilities to build General Fund reserves, as well as utilities usage rate increases causing an increased taxable base. Other categories of utility taxes also saw increased revenues.

- The new business and occupation tax has $.3 million dedicated to the General Fund to pay for administration of the tax.

- Building permits and other licenses and permits are up $.7 million from the previous year as development showed some increases and the fees were restructured and increased.

- General Fund expenditures increased $.8 million (1.2 percent) from the previous year with the largest increases in Public Safety ($1.2 million increase) and General Government ($.7 million increase). Overall, while the City faced increasing costs due to inflation and increased costs of employee benefits, the City has continued to cut some services and trim budgets to allow for rebuilding reserves and creating sustainable programs. In 2013, Leisure Services and Health and Human Services reduced costs by $.9 million and $.2 million respectively.

Other major funds are the *Capital Improvement Fund,* the *Special Assessments Fund*, the *Non-voted General Obligation Debt Fund*, and the *Street Projects Fund*. Analysis of changes in net position from 2012 levels:

- *Capital Improvement Fund.* Fund balance increased by $3.6 million with the implementation of the new business and occupation tax primarily dedicated to this fund. Although revenues increased by $1.9 million in 2013, the fund still has a deficit fund balance of $7.4 million at the end of 2013. The primary revenue sources for the Capital Improvement Fund are sales and use tax, utility tax, real estate excise tax, and business and occupation tax. The business and occupation tax and utility tax on internal City utilities are new revenues in 2013 as the City rebuilds this fund. In 2013, the City also received $1.8 million from the sale of land. This fund is also responsible for the General Fund debt service payments, which accounts for $7.3 million of the $7.8 million in 2013 transfers out.

- *Special Assessments Fund*. Fund balance increased by $2.5 million. Revenue in the fund is primarily collected from property owners for special assessments related to their property and that money is used for payment of debt service related to those assessments. In 2013, revenues increased $1.5 million from 2012 revenues primarily due to $1.2 million in collections for a new improvement district, while debt service expenditures decreased $.8 million as some districts were paid off and no debt payments were yet due on the new district.

- *Non-voted General Obligation Debt Fund*. This fund pays the principal and interest payments on non-voted general obligation debt of the City. Funding is transfers in from various operating funds. Both expenditures and transfers in increased $.9 million in 2013, primarily due to payments on long-term interfund loans.

- *Street Projects Fund*. Fund balance increased $3.2 million to $6.7 million. The increase is due to increased transfers from the Street Fund to fund infrastructure projects that have not yet been expended.

Proprietary Funds. The City of Kent's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City's Enterprise utility funds continued to provide sufficient working capital to service their debt and fund capital outlays. Approximately $3.6 million or 1.2 percent of the Enterprise funds' net position ($304.6 million) is restricted for debt service bond covenant requirements. Analysis of changes in net position from prior fiscal year levels:

- *Water Fund*. Net position increased by $8.4 million or 7.5 percent. This increase was due to net operating income of $3.6 million, less non-operating expenses of $.4 million, plus capital contributions of $2.4 million and a special item of $2.8 million from refinancing of a note payable. Operating revenues increased by 4.7 percent or $.8 million primarily due to a 6 percent rate increase for meter access fees and usage rates per 100 cu. ft. effective January 1, 2013. Operating expenses increased 9.0 percent or $1.1 million with the additional 3 percent internal tax on water sales somewhat offset by lower salary and benefit expenses. The operating income for 2013 was $3.6 million as compared to $3.9 million in 2012. Capital contributions increased $.5 million.

- *Sewerage Fund*. Fiscal year 2013 net position increased by $11.3 million or 6.6 percent. While operating revenues increased $3.2 million (8.6 percent), operating expenses increased $1.3 million (3.7 percent) compared to 2012 levels. A 9.5 percent rate increase was effective January 1, 2013 for single family sewer fees and a ten percent increase for storm drainage fees. Like the Water Fund, the increased expenses is primarily the additional 3 percent internal tax on sales somewhat offset by lower salary and benefit expenses.

- *Golf Complex*. Net position decreased by $.5 million or 9.9 percent in fiscal year 2013. Operating revenues decreased by $.1 million or 5.4 percent, while expenses decreased by $.3 million or 8.3 percent. Salaries, supplies, services, and depreciation expenses had small decreases, while benefits expense had a small increase from the previous year.

Additional information on the City of Kent's Enterprise funds can be found in Note 12 on pages 71-72 of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS:

CITY OF KENT'S BUDGET ACTIVITY BY FUNCTION
For the Year Ended December 31, 2013
(in thousands)

	Original Budget	Supplemental Appropriations	Final Budget
General Government	$ 7,222	$ 109	$ 7,331
Judicial	2,860	2	2,862
Public Safety	33,536	320	33,856
Community Development	5,411	(10)	5,401
Public Works	4,772	-	4,772
Leisure Services	9,861	151	10,012
Health & Human Services	4,803	(6)	4,797
	$ 68,465	$ 566	$ 69,031

The General Fund's budget was increased by $566,469 from the original budget. There were a few significant budget changes that occurred during the year, including:

- An adjustment of $81,694 was made to the Economic and Community Development budget to carry over expenditure authority for Phase II of the ECD Strategic Plan.
- An adjustment was made to add $287,757 to the Public Safety budget to fund salary increases for Police. Additionally, other $32,448 was added to cover salary increases for additional Police personnel not covered by the first adjustment.
- An adjustment of $84,500 was made to increase the Parks budget for supplies for recreation programs. The increase was offset by revenue increases.
- An adjustment of $20,000 was made to increase the overtime budget in Economic and Community Development to cover increased workload.
- Transfers out were increased by $45,090 to fund consultants for an efficiency study.

Significant budgetary variances between budget and actual for the General Fund are as follows:

- *Taxes.* Actual tax collections were $.8 million over budget. While property taxes and other taxes were below budget by $50,298 and $54,775 respectively, sales and uses taxes and utility taxes were over budget by $707,884, $211,157 respectively.
- *Licenses and Permits.* Licenses and permits were $.4 million or 9.1 percent over budget. Both building permits and other licenses and permits were above budget as development activity increased and fee increases were in place.
- *Charges for Services.* Charges for services were about 7.2 percent or $346,001 above budget. Of this revenue source, parks and recreation fees were below budget by $35,305 or 3 percent. Other fees, including plan check fees and plans review fees were $381,306 or 10.6% over budget due to the recovery in the construction industry.

- *Functional Expenditures.* In general, the City is still holding open vacant positions longer thus causing savings in salaries and benefits, although some salary increases were granted during 2013. Departments are also closely monitoring expenditures to maintain savings wherever possible so most of the general fund functions had budget savings in fiscal year 2013.

  - *General Government Expenditures.* The general government expenses were $469,570 or 6.4 percent under budget. This was primarily the result of the lag in hiring and holding open of vacant positions as well as savings in supplies and services.

  - *Leisure Services Expenditures*. Leisure services revenues were below budget with fewer participants in some programs. Expenditures were $508,119 (5.1 percent) below budget, primarily in supplies and services due to the lower participation and savings in areas like utilities and internal allocations. There were also small savings in salaries and benefits.

  - *Community Development Expenditures.* Saved $268,154 (5.0 percent), primarily in other professional services contract savings or delayed contracts for consulting.

  - *Public Safety Expenditures.* Public safety had $241,927 (.7 percent) in budget savings in supplies and services, especially in the corrections, patrol, and traffic divisions.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets. The City of Kent's investment in capital assets for its governmental and business type activities as of December 31, 2013, was $1.1 billion (net of accumulated depreciation), comprising 90.0 percent of the primary government's total assets at year-end. This investment in capital assets includes land, buildings, site improvements, equipment, infrastructure, and construction in progress as of that date.

Capital asset events during the current fiscal year included the following:

Governmental Activities:

- *Infrastructure*. During 2013, infrastructure increased as projects were closed and capitalized totaling $1.8 million. In addition, the City received developer contributions totaling $.7 million. The annual depreciation of $10.6 million was also recorded resulting in the net decrease to infrastructure of $8.1 million as compared to 2012.

- *Construction in Progress.* Construction in progress ($106.8 million) remained almost unchanged from 2012. Fiscal year 2013 spending on projects approximated the capitalization of completed projects in which the assets were recorded as land, building, site improvements or infrastructure. The two largest projects to be capitalized were the street overlay project in which $1.2 million was capitalized to streets and IT Technology project with $2.2 million capitalized to equipment.

- *Land*. Land assets were unchanged in 2013.

- *Buildings*. Buildings increased $1 million in 2013 with $2.3 million in additions less $1.3 million 2013 depreciation expense. The additions consisted of $1.4 million for HVAC upgrades to the Centennial building and $.9 million in assets transferred from the Sewer Fund and infrastructure.

- *Site Improvements*. Net site improvements decreased by $1.8 million as compared to 2012 with $.4 million in additions (parks and public art) and $2.2 million in 2013 depreciation.

- *Equipment*. Net equipment decreased by $14.9 million in 2013. This was additions of $2.7 million less net disposals of $41,368 and depreciation of $17.6 million.

Business Type Activities:

- *Construction in Progress.* Compared to 2012, construction in progress increased $5.4 million in 2013. This is primarily due to projects still in progress. Approximately $13.5 million in ongoing projects were added to CIP in 2013, while $8.1 million in projects were completed and capitalized from CIP into other capital asset categories.

    - The 2013 additions to some projects in CIP at December 31, 2013 are:
        - $2.0 million for Horseshoe Bend levee improvements
        - $1.1 million for Hawley Road levee
        - $1.2 million for Upper Russell Road levee improvements
        - $1.2 million for Boeing levee improvements
        - 1.4 million for Briscoe levee improvements
        - $1.9 million for Tacoma intertie water supply pipeline
        - $1.4 million for East Hill Pressure Zone
    - Some projects that were completed and capitalized in 2013 are:
        - $2.1 million for Impoundment Reservoir
        - $4.9 million for East Hill Reservoir
        - $.4 million for Meridian Valley Creek project

- *Site Improvements*. Additions to site improvements for 2013 were $9.5 million and depreciation was $5.6 million resulting in a net increase of $3.9 million. The primary additions to site improvements were the result of completed projects that were part of construction in progress mentioned above plus $2.0 million in developer contributed assets.

CITY OF KENT'S CAPITAL ASSETS
(Net of Accumulated Depreciation)
As of December 31
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Land	$ 219,458	$ 219,458	$ 11,367	$ 11,126	$ 230,825	$ 230,584
Buildings	99,514	98,521	743	894	100,257	99,415
Site Improvements	36,677	38,507	157,955	154,023	194,632	192,530
Equipment	9,959	24,876	845	989	10,804	25,865
Infrastructure	289,077	297,188	-	-	289,077	297,188
Construction in Progress	106,848	106,879	152,077	146,689	258,925	253,568
Total Capital Assets	$ 761,533	$ 785,429	$ 322,987	$ 313,721	$1,084,520	$1,099,150

Additional information on the City of Kent's capital assets can be found in Note 7 on pages 62-63 of this report.

Long-term Debt. At the end of the current fiscal year, the City of Kent had total bonded debt outstanding of $84.9 million. Of this amount, $61.0 million or 71.9 percent comprises general obligation debt backed by the full faith and credit of the government and $2.7 million or 3.2 percent is special assessment debt. The special assessment bonds are supported solely by the property owners and the Local Improvement Guarantee Fund and are not a general obligation of the City. The City intends $3.7 million or 6.0% of the outstanding general obligation bonded debt to be repaid through utility fund user fees. The remainder of the City of Kent's bonded debt ($21.2 million) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

CITY OF KENT'S BONDED OUTSTANDING DEBT
As of December 31
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
General Obligation Bonds	$ 57,328	$ 62,050	$ 3,665	$ 4,633	$ 60,993	$ 66,683
Special Assessment Bonds	2,700	3,823	-	-	2,700	3,823
Revenue Bonds	-	-	21,165	22,110	21,165	22,110
Total Bonded Debt	$ 60,028	$ 65,873	$ 24,830	$ 26,743	$ 84,858	$ 92,616

The City of Kent's total bonded debt decreased by $7.8 million or 8.4 percent during the current fiscal year. All required debt service payments were made during 2013.

The City of Kent carries an "AA-" rating from Standard and Poor's as of November 26, 2013 and a "Baa2" rating from Moody's as of February 6, 2012.

The State of Washington limits the amount of general obligation debt a governmental entity may issue with and without a vote. The City's remaining unused debt capacity at year-end was $869.2 million.

Additional information on the City of Kent's long-term debt can be found in Note 10 on pages 64-70 of this report.

ECONOMIC FACTORS AND BUDGETARY IMPACTS:

Beginning with the 2013 budget, the City moved to a biennial budget process adopting a budget for 2013 and 2014.

The adopted 2013 – 2014 budget recognized continued economic challenges and included both service reductions and new revenue sources. It incorporated efficiencies, maintained the public's safety, and honored the strategic goals set by Council. It diversified the City's tax base and took bold steps towards stabilizing the City's financial future. This approach has helped the City to achieve the target reserve fund balance of 10% of expenditures, fully fund the Contingency for Unanticipated Costs of $1.5 million and provide funding of $424,000 to the Strategic Opportunities Fund.

With continued steady growth in revenues, during the mid-biennium review, the City was able to increase the fiscal year 2014 General Fund revenue budgets by $385,000 or approximately 0.5% over the original 2014 General Fund revenue budgets adopted with the 2013 - 2014 biennial budget while still maintaining our practice to budget conservatively. Revenues are estimated cautiously, with a bias toward underestimating more volatile sources. All positions, whether filled or vacant, have been budgeted for the full year. Vacant positions are budgeted assuming family plan selection for medical insurance benefits. Cost of Living Adjustment (COLA) based on the CPI-W July – June index for the Seattle – Tacoma – Bremerton area is normally used for all labor contracts. After nearly four years without receiving a COLA, City employees received a pay increase of 2.2% in September 2013 and 1.7% in January 2014.

The City is seeing significant growth in building permit and plan check fees as our local economy is beginning to come back. Although this revenue is coming in considerably over budget, it is anticipated that some of this growth is attributable to "one-time" activity.

With the 2013 – 2014 budget, the City implemented several new or increased revenue sources: A new six percent tax Cable TV Utility Tax; building permit and inspection fees were increased to provide a 75% cost recovery for these services; a new Business and Occupation Tax was implemented to provide funding for street infrastructure; and an additional three percent Internal Utility Tax was implemented on the City's water, sewer, and storm drainage utilities.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the City of Kent's finances. Questions concerning the information provided in this report may be addressed to:

City of Kent
Finance Department
220 Fourth Avenue South
Kent, WA 98032-5895
www.kentwa.gov

CITY OF KENT
STATEMENT OF NET POSITION
December 31, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Special Events Center PFD
ASSETS				
Cash and equity in pooled investments (Note 4)	$ 20,032,620	$ 3,589,563	$ 23,622,183	$ 1,686
Cash with fiscal agent/trustee	355,000	72,634	427,634	-
Investments, at fair value (Note 4)	22,479,874	17,341,103	39,820,977	-
Receivables (net of allowances) (Note 5)	29,471,663	13,297,710	42,769,373	129,011
Internal balances (Note 5e)	(8,074,808)	8,074,808	-	-
Due from other governments	258,830		258,830	-
Inventory, at cost (Note 6)	110,602	505,403	616,005	-
Prepaid items	740,801	797	741,598	889,607
Investment in Joint Venture (Note 16)	7,378,791	-	7,378,791	-
Restricted assets:				
Cash and cash equivalents (Note 4)	-	1,426,387	1,426,387	-
Investments (Note 4)	-	3,375,000	3,375,000	-
Property, plant, and equipment: (Note 7)				
Not being depreciated	326,306,455	163,444,436	489,750,891	-
Being depreciated, net of depreciation	435,226,976	159,542,548	594,769,524	-
TOTAL ASSETS	834,286,804	370,670,389	1,204,957,193	1,020,304
DEFERRED OUTFLOWS				
Deferred loss on refundings	532,616	-	532,616	
TOTAL DEFERRED OUTFLOWS	532,616	-	532,616	-
TOTAL ASSETS & DEFERRED OUTFLOWS	834,819,420	370,670,389	1,205,489,809	1,020,304
LIABILITIES				
Vouchers payable	2,137,990	3,056,850	5,194,840	-
Matured bonds/interest payable	355,000	-	355,000	-
Accounts/payroll payable	4,570,261	1,142,079	5,712,340	-
Incurred but not reported claims payable	4,585,109	-	4,585,109	-
Due to other governments	32,705	-	32,705	-
Accrued interest payable	251,034	195,164	446,198	-
Unearned revenue	8,810,268	443,412	9,253,680	-
Non-current liabilities:				
Due within one year (Note 10)				
Compensated absences-current	3,011,358	353,935	3,365,293	-
Contracts, leases, notes-current	1,952,607	1,604,028	3,556,635	-
General obligation bonds payable-current	5,066,333	545,667	5,612,000	-
Special assessment bonds payable with governmental commitment-current	725,000	-	725,000	-
Revenue bonds payable-current	-	975,000	975,000	745,000
Due in more than one year (Note 10)				
Compensated absences-long term	1,736,360	126,559	1,862,919	-
Contracts, leases, notes-long term	16,762,829	33,979,445	50,742,274	-
General obligation bonds payable-long term (net of unamortized discounts & premiums)	52,837,136	3,119,759	55,956,895	-
Special assessment bonds payable- long term	1,975,000	-	1,975,000	-
Revenue bonds payable-long term (net of of unamortized discounts & premiums)	-	20,495,198	20,495,198	60,375,339
Net OPEB Obligation	1,112,245	-	1,112,245	-
TOTAL LIABILITIES	105,921,235	66,037,096	171,958,331	61,120,339
TOTAL LIABILITIES & DEFERRED INFLOWS	105,921,235	66,037,096	171,958,331	61,120,339
NET POSITION				
Net investment in capital assets	682,946,045	264,927,149	947,873,194	
Restricted net position for:				
Debt service	10,721,573	3,631,223	14,352,796	
Unrestricted net position	35,230,567	36,074,921	71,305,488	(60,100,035)
TOTAL NET POSITION	$ 728,898,185	$ 304,633,293	$ 1,033,531,478	$ (60,100,035)

The accompanying notes are an integral part of the financial statements

CITY OF KENT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

		Program Revenues		
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General Government	$ 8,959,390	$ 2,044,753	$ -	$ -
Judicial	2,743,574	2,108,024	271,955	-
Public Safety	37,378,185	1,811,747	2,846,271	-
Community Development	5,096,639	3,841,993	-	10,120
Public Works	16,993,893	1,810,854	258,216	4,935,608
Leisure services	15,908,830	1,380,839	92,176	1,602,754
Health and human services	5,275,046	709,948	708,477	107,093
Interest on long-term debt	3,250,089	-	-	-
Total governmental activities	95,605,646	13,708,158	4,177,095	6,655,575
Business-type Activities:				
Water	13,972,634	17,021,951	77,232	2,360,829
Sewerage	37,680,430	42,752,458	-	6,834,173
Golf Complex	2,917,964	2,431,782	4,172	-
Total business type activities	54,571,028	62,206,191	81,404	9,195,002
Total Primary Government	$ 150,176,674	$ 75,914,349	$ 4,258,499	$ 15,850,577
Component Unit:				
Special Events Center PFD	$ 3,087,095	$ -	$ -	$ -
Total Component Units	$ 3,087,095	$ -	$ -	$ -

General revenues:
Taxes:
Property taxes levied for general purpose
Sales taxes
Utility taxes
Business & occupation tax
Real Estate Excise Tax
Other taxes
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous
Gain(Loss) on disposal of capital asset
Transfers
Special item: gain on note refinacing
Total general revenues, special items, and transfers
Change in net position
Net position - beginning
Prior Period Adjustment
Beginning net assets - adjusted

Net position-ending

The accompanying notes are an integral part of the financial statements

Net (Expenses) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Special Events Center PFD
$ (6,914,637)		$ (6,914,637)	
(363,595)		(363,595)	
(32,720,167)		(32,720,167)	
(1,244,526)		(1,244,526)	
(9,989,215)		(9,989,215)	
(12,833,061)		(12,833,061)	
(3,749,528)		(3,749,528)	
(3,250,089)		(3,250,089)	
(71,064,818)		(71,064,818)	
	$ 5,487,378	5,487,378	
	11,906,201	11,906,201	
	(482,010)	(482,010)	
-	16,911,569	16,911,569	
$ (71,064,818)	$ 16,911,569	$ (54,153,249)	
			$ (3,087,095)
			$ (3,087,095)
20,085,117	-	20,085,117	-
22,707,244	-	22,707,244	714,360
22,760,019	-	22,760,019	-
5,149,172	-	5,149,172	-
3,837,948	-	3,837,948	-
1,319,462	-	1,319,462	-
6,760,236	-	6,760,236	-
895,815	153,554	1,049,369	301
1,740,638	-	1,740,638	3,104,475
1,945,741	-	1,945,741	-
762,322	(762,322)	-	-
-	2,827,682	2,827,682	-
87,963,714	2,218,914	90,182,628	3,819,136
16,898,896	19,130,483	36,029,379	732,041
724,143,802	285,465,592	1,009,609,394	(60,394,797)
(12,144,513)	37,218	(12,107,295)	(437,279)
711,999,289	285,502,810	997,502,099	(60,832,076)
$ 728,898,185	$ 304,633,293	$ 1,033,531,478	$ (60,100,035)

CITY OF KENT
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2013

	General Fund	Capital Improvement Fund	Special Assessments Fund	Non-Voted General Obilgation Debt Fund
ASSETS				
Cash and equity in pooled investments	$ 5,703,366	$ 221,338	$ 3,353,595	$ -
Cash with fiscal agent	-	-	355,000	-
Investments, at fair value	715,000	-	265,000	-
Receivables (net of allowances for estimated uncollectables):				
Taxes	7,039,065	1,151,255	-	-
Accounts	270,547	11,500	-	183
Special assessments				
Current	-	-	2,107,856	-
Delinquent	-	-	344,144	-
Unavailable	-	-	11,419,421	-
Penalty and Interest	-	-	1,029,169	-
Interfund loans receivable	100,000	-	-	-
Due from other governments	2,250	-	-	-
Prepaid items	80,055	-	-	-
TOTAL ASSETS	$ 13,910,283	$ 1,384,093	$ 18,874,185	$ 183
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 13,910,283	1,384,093	18,874,185	183
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE				
LIABILITIES				
Vouchers payable	$ 944,222	$ 2,472	$ 3,639	$ -
Matured bonds/interest payable	-	-	355,000	-
Accounts/payroll payable	3,321,670	4,000	-	-
Due to other governments	22,318	-	-	-
Interfund loans payable	-	8,800,000	-	-
Deposits and advances	849,263	-	-	-
Total Liabilities	5,137,473	8,806,472	358,639	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	492,883	-	14,900,590	-
Total Deferred Inflows of Resources	492,883	-	14,900,590	-
FUND BALANCE				
Nonspendable:				
Prepaid items	80,055	-	-	-
Restricted:				
Annexation	1,761,783		-	
United Way	22,226	-	-	-
Street capital projects	-	-	-	-
Lodging tax purposes	-	-	-	-
Criminal justice programs	-	-	-	-
Parks capital projects	-	-	-	-
Facility capital projects	-	-	-	-
Bond retirement	-	-	-	183
Special assessment debt	-	-	3,342,230	-
Assessment debt guaranty	-	-	272,726	-
Economic and community development	55,116	-	-	-
Human Services	7,007	-	-	-
Committed:				
Street operations	-	-	-	-
Youth/Teen program	-	-	-	-
Criminal justice programs	-	-	-	-
City arts program	184,691	-	-	-
Street capital projects	-	-	-	-
Parks capital projects	-	-	-	-
Technology systems	-	-	-	-
Assigned:				
Public safety retiree OPEB	861,791	-	-	-
Human services	107,075	-	-	-
Criminal justice programs	-	-	-	-
Street capital projects	-	-	-	-
Parks capital Projects	-	-	-	-
Technology capital Projects	-	-	-	-
Facility capital projects	-	-	-	-
Unassigned:	5,200,183	(7,422,379)	-	-
Total Fund Balance	8,279,927	(7,422,379)	3,614,956	183
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	$ 13,910,283	$ 1,384,093	$ 18,874,185	$ 183

The accompanying notes are an integral part of the financial statements

Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ 2,671,533	$ 5,261,382	$ 17,211,214
-	-	355,000
4,445,000	1,440,000	6,865,000
-	1,132,575	9,322,895
327,765	1,377,598	1,987,593
-	-	2,107,856
-	-	344,144
-	-	11,419,421
-	-	1,029,169
-	-	100,000
33,555	223,025	258,830
-	3,120	83,175
$ 7,477,853	$ 9,437,700	$ 51,084,297
7,477,853	9,437,700	51,084,297
$ 24,855	$ 369,728	$ 1,344,916
-	-	355,000
45,517	703,163	4,074,350
61	10,326	32,705
699,808	175,000	9,674,808
-	164,516	1,013,779
770,241	1,422,733	16,495,558
-	5,105	15,398,578
-	5,105	15,398,578
-	3,120	83,175
	-	1,761,783
-	-	22,226
3,150,234	40,241	3,190,475
-	193,663	193,663
-	1,476,567	1,476,567
-	1,152,324	1,152,324
-	1,281,087	1,281,087
-	1,083	1,266
-	-	3,342,230
-	-	272,726
-	-	55,116
-	-	7,007
-	1,108,879	1,108,879
-	157,337	157,337
-	146,322	146,322
-	-	184,691
3,457,026	-	3,457,026
-	286,746	286,746
-	561,753	561,753
-	-	861,791
-	-	107,075
-	24,558	24,558
100,352	-	100,352
-	1,326,597	1,326,597
-	166,868	166,868
-	108,361	108,361
-	(25,644)	(2,247,840)
6,707,612	8,009,862	19,190,161
$ 7,477,853	$ 9,437,700	$ 51,084,297

CITY OF KENT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013

Fund balance - total governmental funds		$	19,190,161
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds			
Capital assets (Note 7)	$ 761,533,431		
Capital Assets - Internal Service Funds	(4,568,138)		756,965,293
Investment in Joint Venture (Note 16)			7,378,791
Internal Service Funds are used by management to charge the costs of fleet management, central services, management information systems, facility rental and maintenance, and self-insurance costs to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net position (page 111)			22,158,784
Interest accrued on governmental long-term debt, but not due and payable in the current period, is not reported on the governmental fund statements, but is accrued and reported on the statement of net position			
Councilmanic general obligation bonds	(218,999)		
Voted general obligation bonds	-		
LID bonds	(6,728)		
Contracts & loans	(25,202)		(250,929)
Property tax revenue earned but not received within 60 days of year-end, and therefore not available to pay current year liabilities, are deferred inflows on the governmental statements, but is recognized as revenue for the government-wide statements			
General Fund	492,883		
Voted Debt Service Fund	5,105		497,988
Deferred inflows for long-term special assessments is shown on the government funds balance sheet, but is not a deferred inflow on the statement of net position			7,105,351
Unamortized bond costs are not reported on the governmental fund statements, but are reported on the statement of net position			
Prepaid bond insurance	48,397		
Deferred loss on refunding	532,616		
Unamortized bond (premium)/discount	(575,895)		5,118
Long-term liabilities, including bonds and contracts, are not due and payable in the current period and therefore are not reported in the governmental funds			
General obligation bonds	(57,327,574)		
Special assessment bonds	(2,700,000)		
Contracts, leases and notes	(18,684,349)		
Compensated absences	(4,328,204)		
OPEB liability	(1,112,245)		(84,152,372)
Net Position of governmental activities (page 21)			728,898,185

The accompanying notes are an integral part of the financial statements

CITY OF KENT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2013

	General Fund	Capital Improvement Fund	Special Assessments Fund	Non-Voted General Obilgation Debt Fund
REVENUES				
Taxes:				
Property	$ 20,125,761	$ -	$ -	$ -
Sales and use	15,787,973	4,841,673	-	-
Utility	17,708,030	1,178,131	-	-
Business & occupation	299,907	175,213	-	-
Real estate excise tax	-	3,837,948	-	-
Lodging	-	-	-	-
Other	1,101,844	-	-	-
Licenses and permits:				
Building permits	1,734,228	-	-	-
Other licenses and permits	3,365,687	-	-	-
Intergovernmental revenue	7,487,288	-	-	-
Charges for services:				
Park and recreation fees	1,158,442	-	-	-
Other fees and charges	3,967,526	-	-	-
Fines and forfeitures	1,493,381	-	-	-
Miscellaneous revenue:				
Special assessments	-	-	3,188,365	-
Interest income	128,129	1,086	869,979	-
Contributions and Donations	764,820	-	-	-
Other miscellaneous revenue	1,141,451	-	-	-
TOTAL REVENUES	76,264,467	10,034,051	4,058,344	-
EXPENDITURES				
Current:				
General government	6,870,345	22,714	-	
Judicial	2,781,005	-	-	
Public safety	34,396,767	-	-	
Community development	5,132,560	-	-	
Public works	4,742,973	-	-	
Leisure services	10,035,360	2,812,872	-	
Health and human services	4,560,981	-	-	
Debt service:				
Principal	-	-	1,203,319	6,659,313
Interest	-	-	180,786	2,998,852
Capital outlay	48,674	-	-	-
TOTAL EXPENDITURES	68,568,665	2,835,586	1,384,105	9,658,165
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,695,802	7,198,465	2,674,239	(9,658,165)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	1,827,862	-	-
Transfers in	1,036,877	2,361,219	-	9,658,348
Transfers out	(2,816,515)	(7,772,929)	(130,451)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,779,638)	(3,583,848)	(130,451)	9,658,348
NET CHANGE IN FUND BALANCE	5,916,164	3,614,617	2,543,788	183
FUND BALANCE, January 1	2,363,763	(11,036,996)	1,071,168	-
FUND BALANCE (DEFICIT), December 31	$ 8,279,927	$ (7,422,379)	$ 3,614,956	$ 183

The accompanying notes are an integral part of the financial statements

Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	20,125,761
-	2,077,598	22,707,244
-	3,873,858	22,760,019
-	4,674,052	5,149,172
-	-	3,837,948
-	217,618	217,618
-	-	1,101,844
-	-	1,734,228
-	-	3,365,687
606,006	5,851,057	13,944,351
-	-	1,158,442
8,299	777,687	4,753,512
-	42,439	1,535,820
131,204	-	3,319,569
69,012	5,912	1,074,118
459,987	288,366	1,513,173
-	195,809	1,337,260
1,274,508	18,004,396	109,635,766
-	2,078	6,895,137
-	-	2,781,005
-	3,765,244	38,162,011
-	123,499	5,256,059
-	2,475,171	7,218,144
-	342,000	13,190,232
-	807,099	5,368,080
-	-	7,862,632
-	-	3,179,638
3,531,833	2,481,696	6,062,203
3,531,833	9,996,787	95,975,141
(2,257,325)	8,007,609	13,660,625
-	138,591	1,966,453
5,483,092	2,399,846	20,939,382
-	(8,898,779)	(19,618,674)
5,483,092	(6,360,342)	3,287,161
3,225,767	1,647,267	16,947,786
3,481,845	6,362,595	2,242,375
$ 6,707,612	$ 8,009,862	$ 19,190,161

CITY OF KENT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balance - total governmental funds		$ 16,947,786
Governmental funds report capital outlays as expenditures. On the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 6,062,203	
Depreciation expense	(17,988,507)	(11,926,304)
The net effect of various miscellaneous transactions involving capital assets is to increase net position.		2,878,004
Certain revenues are unavailable in the governmental funds because they do not provide current financial resources, but are considered revenues on the statement of activities.		
Property taxes		(40,644)
Special assessment principal payments received are revenues on the governmental operating statement, but are reductions to the outstanding special assessment debt on the Statement of Activities.		(2,110,774)
Repayment of bonds/contracts principal is an expenditure in the governmental funds, but reduces long-term liabilities on the government-wide statements.		
Principal repayments	7,862,632	
Valley Com contribution to principal	10,120	7,872,752
Certain bond transactions, like premiums, discounts, insurance and loss of refunding, are reported as revenues or expenditures in the governmental funds because they provide, or use, current financial resources. However, for the government-wide statements, these costs are recognized or amortized (expensed) over the life of the bonds.		
Amortization of prepaid bond insurance	(6,607)	
Amortization of premium/discount	78,016	
Amortization of loss on refunding	(138,464)	(67,055)
Internal Service Funds are used by management to charge the costs of fleet management, central services, management information systems, facility rental and maintenance, and self-insurance costs to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		3,690,968
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(236,708)	
Interest expense accrual	193	
Net OPEB obligation	(109,322)	(345,837)
Change in net position of governmental activities (page 23)		16,898,896

The accompanying notes are an integral part of the financial statements

CITY OF KENT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2013

	2013 Budget			
	Original	**Final**	**Actual**	**Variance**
REVENUES				
Taxes:				
Property	$ 20,176,059	$ 20,176,059	20,125,761	$ (50,298)
Sales and use	15,080,089	15,080,089	15,787,973	707,884
Utility	17,496,873	17,496,873	17,708,030	211,157
Business & occupation		300,000	299,907	(93)
Other	1,456,619	1,156,619	1,101,844	(54,775)
Licenses and permits:				
Building permits	2,195,443	1,607,115	1,734,228	127,113
Other licenses and permits	2,480,831	3,069,159	3,365,687	296,528
Intergovernmental revenue:				
Other grants and shared revenue	6,806,757	6,844,507	7,462,288	617,781
Charges for services:				
Park and recreation fees	1,122,747	1,193,747	1,158,442	(35,305)
Other fees and charges	3,586,220	3,586,220	3,967,526	381,306
Fines and forfeitures	1,537,250	1,537,250	1,493,381	(43,869)
Miscellaneous revenue:				
Interest income	14,000	80,867	127,077	46,210
Other miscellaneous revenue	1,222,384	1,192,017	1,173,315	(18,702)
TOTAL REVENUES	73,175,272	73,320,522	75,505,459	2,184,937
EXPENDITURES				
Current:				
General government	7,221,853	7,331,386	6,861,816	469,570
Judicial	2,860,167	2,862,271	2,781,005	81,266
Public safety	33,535,906	33,856,151	33,614,224	241,927
Community development	5,411,377	5,400,714	5,132,560	268,154
Public works	4,771,654	4,771,654	4,742,973	28,681
Leisure services	9,861,494	10,011,744	9,503,625	508,119
Health and human services	4,802,538	4,797,538	4,536,565	260,973
Capital outlay	-		10,499	(10,499)
TOTAL EXPENDITURES	68,464,989	69,031,458	67,183,267	1,848,191
DEFICIENCY OF REVENUES OVER EXPENDITURES	4,710,283	4,289,064	8,322,192	4,033,128
OTHER FINANCING SOURCES (USES)				
Transfers in	994,139	1,119,139	1,036,877	(82,262)
Transfers out	(3,874,291)	(3,919,381)	(3,991,369)	(71,988)
TOTAL OTHER FINANCING SOURCES (USES)	(2,880,152)	(2,800,242)	(2,954,492)	(154,250)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,830,131	1,488,822	5,367,700	3,878,878
FUND BALANCE, January 1	2,557,464	4,129,976	4,129,976	
FUND BALANCE, December 31	$ 4,387,595	$ 5,618,798	$ 9,497,676	$ 3,878,878

The accompanying notes are an integral part of the financial statements

See accompanying notes to financial statements

CITY OF KENT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2013

	Business-type Activities - Enterprise Funds		
	Water Fund	**Sewerage Fund**	**Golf Complex Fund**
ASSETS			
Current Assets:			
Cash and equity in pooled investments	$ 2,028,698	$ 1,443,730	$ 117,135
Cash with fiscal agent	72,634	-	-
Investments, at fair value	11,640,294	5,695,809	5,000
Restricted cash, equity in pooled cash, and investments:			
For bond redemption:			
Cash and equity in pooled investments	130,579	64,585	-
Receivables (net of allowances for estimated uncollectables):			
Accounts	1,643,598	5,574,825	63,761
Notes	3,021,389	2,994,133	-
Accrued interest	1	3	-
Interfund loan receivable	9,900,000	774,808	-
Inventory, at cost	323,074	47,859	134,470
Prepaid expenses	200	597	-
Total Current Assets	28,760,467	16,596,349	320,366
Noncurrent Assets:			
Restricted cash, equity in pooled cash, and investments:			
For bond redemption:			
Cash and equity in pooled investments	599,947	625,132	-
Investments, at fair value	145,000	1,110,000	-
For bond reserve:			
Cash and equity in pooled investments	3,072	3,072	-
Investments, at fair value	1,060,000	1,060,000	-
Property, plant and equipment			
Land	1,994,193	4,030,315	5,342,508
Buildings	2,151,264	75,522	2,954,818
Site Improvements	83,501,769	166,803,968	4,540,222
Equipment	1,970,342	1,276,850	569,203
Less: Accumulated Depreciation	(36,851,558)	(61,128,134)	(6,321,718)
Construction In Progress	84,630,991	67,446,429	
Total noncurrent assets	139,205,020	181,303,154	7,085,033
TOTAL ASSETS	$ 167,965,487	$ 197,899,503	$ 7,405,399
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 167,965,487	$ 197,899,503	$ 7,405,399

The accompanying notes are an integral part of the financial statements

Business-type Activities Enterprise Funds	Governmental Activities
Totals	Internal Service Funds
$ 3,589,563	$ 2,821,406
72,634	-
17,341,103	15,614,874
195,164	-
7,282,184	577,243
6,015,522	2,683,291
4	51
10,674,808	1,500,000
505,403	110,602
797	609,229
45,677,182	23,916,696
1,225,079	-
1,255,000	-
6,144	-
2,120,000	-
11,367,016	-
5,181,604	1,008,269
254,845,959	361,953
3,816,395	19,907,275
(104,301,410)	(18,181,993)
152,077,420	1,472,634
327,593,207	4,568,138
$ 373,270,389	$ 28,484,834
$ 373,270,389	$ 28,484,834

Continued

CITY OF KENT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2013

	Business-type Activities - Enterprise Funds		
	Water Fund	**Sewerage Fund**	**Golf Complex Fund**
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Vouchers payable	$ 2,586,798	$ 463,079	$ 6,973
Accounts/payroll payable	267,316	796,802	77,961
Incurred but not reported claims payable	-	-	-
Interfund loans payable	-	-	2,600,000
Accrued interest payable	130,579	64,585	-
Compensated absences payable - current portion	136,319	171,539	46,077
General obligation bonds payable - current portion	-	545,667	-
Notes payable - current portion	1,529,028	75,000	-
Revenue bonds payable - current portion	487,500	487,500	-
Deposits and unearned revenue	93,043	107,137	243,232
Total Current Liabilities	5,230,583	2,711,309	2,974,243
Noncurrent Liabilities:			
Compensated absences payable- non-current portion	46,276	45,194	35,089
Notes payable - non-current portion	33,229,445	750,000	-
General obligation bonds payable - non-current portion	-	3,119,759	-
Revenue bonds payable - non-current portion	10,095,000	10,095,000	-
Plus: unamortized premium	152,599	152,599	-
Total noncurrent liabilities	43,523,320	14,162,552	35,089
TOTAL LIABILITIES	$ 48,753,903	$ 16,873,861	$ 3,009,332
TOTAL LIABILITIES AND DEFERRED INFLOWS	$ 48,753,903	$ 16,873,861	$ 3,009,332
NET POSITION			
Net investment in capital assets	93,792,255	164,049,861	7,085,033
Restricted for debt service	1,320,519	2,310,704	-
Unrestricted	24,098,810	14,665,077	(2,688,966)
TOTAL NET POSITION	$ 119,211,584	$ 181,025,642	$ 4,396,067

The accompanying notes are an integral part of the financial statements

Business-type Activities Enterprise Funds	Governmental Activities
Totals	Internal Service Funds
$ 3,056,850	$ 793,074
1,142,079	495,911
-	4,585,109
2,600,000	-
195,164	105
353,935	296,783
545,667	-
1,604,028	31,087
975,000	-
443,412	1,250
10,916,135	6,203,319
126,559	122,731
33,979,445	-
3,119,759	-
20,190,000	-
305,198	-
57,720,961	122,731
$ 68,637,096	$ 6,326,050
$ 68,637,096	$ 6,326,050
264,927,149	4,537,051
3,631,223	-
36,074,921	17,621,733
$ 304,633,293	$ 22,158,784

Concluded

CITY OF KENT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds		
	Water Utility	**Sewerage Utility**	**Golf Complex**
OPERATING REVENUES			
Sales	$ 16,504,451	$ -	$ 434,242
Charges for services	502,629	42,744,251	1,749,820
Contributions	-	-	-
Rental and lease income	-	-	246,911
Other operating revenue	14,871	8,207	809
TOTAL OPERATING REVENUES	17,021,951	42,752,458	2,431,782
OPERATING EXPENSES			
Salaries and wages	1,882,324	2,603,882	987,782
Benefits	956,903	1,105,352	404,967
Supplies	621,781	373,562	539,649
Services and charges	8,275,986	28,838,374	782,237
Depreciation	1,685,287	3,983,969	200,027
TOTAL OPERATING EXPENSES	13,422,281	36,905,139	2,914,662
OPERATING INCOME (LOSS)	3,599,670	5,847,319	(482,880)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	90,536	62,990	29
Unrealized net gain/(loss) in fair value of investments	-	(1)	-
Miscellaneous non-operating revenues	77,232	-	4,172
Interest expense	(550,353)	(775,291)	(3,302)
Gain (loss) on disposal of capital assets	-	(627,797)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(382,585)	(1,340,099)	899
INCOME (LOSS) BEFORE CONTRIBUTIONS, TRANSFERS AND SPECIAL ITEI	3,217,085	4,507,220	(481,981)
Capital contributions	2,360,829	6,834,173	-
Transfers in	-	-	-
Transfers out	(53,948)	(77,631)	(2,946)
Special item - Savings on note refinancing	2,827,682	-	-
INCREASE (DECREASE) IN NET POSITION	8,351,648	11,263,762	(484,927)
NET POSITION, January 1	110,932,336	169,678,292	4,854,964
Prior period adjustment	(72,400)	83,588	26,030
ADJUSTED NET POSITION, January 1	110,859,936	169,761,880	4,880,994
NET POSITION, December 31	$ 119,211,584	$ 181,025,642	$ 4,396,067

The accompanying notes are an integral part of the financial statements

Business-type Activities Enterprise Funds	Governmental Activities
Totals	Internal Service Funds
$ 16,938,693	$ 1,137,043
44,996,700	12,144,980
-	15,637,351
246,911	-
23,887	966,206
62,206,191	29,885,580
5,473,988	4,174,175
2,467,222	1,673,079
1,534,992	1,938,070
37,896,597	18,491,150
5,869,283	586,058
53,242,082	26,862,532
8,964,109	3,023,048
153,555	67,199
(1)	(20,712)
81,404	1,369,647
(1,328,946)	(3,589)
(627,797)	-
(1,721,785)	1,412,545
7,242,324	4,435,593
9,195,002	39,465
-	119,191
(134,525)	(1,305,374)
2,827,682	-
19,130,483	3,288,875
285,465,592	18,895,939
37,218	(26,030)
285,502,810	18,869,909
$ 304,633,293	$ 22,158,784

CITY OF KENT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds	
	Water	**Sewerage**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 17,452,579	$ 44,242,404
Cash received from other funds for services	-	-
Cash payments to employees	(2,822,371)	(3,701,949)
Cash payments to suppliers	(6,355,881)	(31,056,066)
Other cash received	14,871	8,207
Net cash provided by operating activities	8,289,198	9,492,596
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interfund loan issued for noncapital purposes	-	-
Interfund loan payment for noncapital purposes	-	-
Operating grants/non-operating revenue received	77,232	-
Prior period adjustment	-	-
Transfers in	-	-
Transfers out	(53,948)	(77,631)
Net cash provided by (used for) noncapital financing	23,284	(77,631)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital asset removal	-	-
Transfer of plant to Governmental Capital Assets	-	-
Acquisition and construction of capital assets	(4,435,494)	(9,070,774)
Interfund loan for capital outlays	3,700,000	159,660
Principal paid on bonds and equipment contracts	(2,006,477)	(1,589,591)
Interest paid on bonds and equipment contracts	(593,013)	(811,318)
Capital contributed by subdividers, capital grants, local impr. districts	1,519,371	5,419,249
Net cash (used for) capital & related financing	(1,815,613)	(5,892,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(30,540,000)	(37,415,000)
Proceeds from sale and maturities of investments	23,480,106	32,315,291
Interest and dividends on investments	90,537	62,991
Net cash provided by (used for) investing activities	(6,969,357)	(5,036,718)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(472,488)	(1,514,527)
CASH AND EQUITY IN POOLED INVESTMENTS, January 1	3,307,418	3,651,046
CASH AND EQUITY IN POOLED INVESTMENTS, December 31	$ 2,834,930	$ 2,136,519
CASH AND EQUITY IN POOLED INVESTMENTS AT DECEMBER 31 CONSISTS OF:		
Current Assets: Cash and equity in pooled investments	$ 2,028,698	$ 1,443,730
Current Assets: Cash with fiscal agent	72,634	
Restricted for Bond Redemption: Cash & pooled investments	730,526	689,717
Restricted for Bond Reserve: Cash & pooled investments	3,072	3,072
	$ 2,834,930	$ 2,136,519

The accompanying notes are an integral part of the financial statements

Business-type Activities - Enterprise Funds		Governmental Activities
Golf Complex	Totals	Internal Service Funds
$ 2,441,691	$ 64,136,674	$ 13,295,040
-	-	16,594,750
(1,396,843)	(7,921,163)	(5,654,182)
(1,323,903)	(38,735,850)	(19,667,039)
809	23,887	966,206
(278,246)	17,503,548	5,534,775
2,600,000	2,600,000	(1,500,000)
(2,250,000)	(2,250,000)	1,250,000
4,172	81,404	1,369,647
26,030	26,030	(26,030)
-	-	119,191
(2,946)	(134,525)	(1,305,374)
377,256	322,909	(92,566)
-	-	20,656
-	-	39,465
-	(13,506,268)	894,824
-	3,859,660	-
-	(3,596,068)	(104,233)
(3,302)	(1,407,633)	(3,931)
-	6,938,620	-
(3,302)	(7,711,689)	846,781
(210,000)	(68,165,000)	(18,074,874)
205,000	56,000,397	10,409,874
29	153,557	67,165
(4,971)	(12,011,046)	(7,597,835)
90,737	(1,896,278)	(1,308,845)
26,398	6,984,862	4,130,251
$ 117,135	$ 5,088,584	$ 2,821,406
$ 117,135	$ 3,589,563	$ 2,821,406
	72,634	
-	1,420,243	-
-	6,144	-
$ 117,135	$ 5,088,584	$ 2,821,406

Continued

CITY OF KENT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds	
	Water	**Sewerage**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 3,599,670	$ 5,847,319
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,685,287	3,983,969
Change in assets and liabilities:		
(Increase) Decrease in accounts receivable	2,612	1,137,840
(Increase) Decrease in notes receivable	436,746	355,867
(Increase) Decrease in inventory	(18,876)	27,715
(Increase) Decrease in prepaid expenses	(200)	(597)
Increase (Decrease) in vouchers payable	2,547,872	(542,488)
Increase (Decrease) in accounts/payroll payable	36,969	(1,310,292)
Increase (Decrease) in incurred but not reported claims payable	-	-
Increase (Decrease) in deposits and deferred revenues	6,141	4,446
Increase (Decrease) in compensated absences	(7,023)	(11,183)
Total Adjustments	4,689,528	3,645,277
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,289,198	$ 9,492,596
SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital assets contributed	$ 841,458	$ 1,414,924
(Decrease) in fair value of investments	-	(1)
Special Item - savings on note refinacing	2,827,682	-

The accompanying notes are an integral part of the financial statements

Business-type Activities - Enterprise Funds		Governmental Activities
Golf Complex	Totals	Internal Service Funds
$ (482,880)	$ 8,964,109	$ 3,023,048
200,027	5,869,283	586,058
(7,098)	1,133,354	986,127
-	792,613	-
4,644	13,483	20,669
-	(797)	(4,057)
(4,235)	2,001,149	643,048
(2,586)	(1,275,909)	(123,478)
-	-	102,521
17,816	28,403	(15,711)
(3,934)	(22,140)	316,550
204,634	8,539,439	2,511,727
$ (278,246)	$ 17,503,548	$ 5,534,775
$ -	$ 2,256,382	$ -
-	(1)	-
-	2,827,682	-

Concluded

CITY OF KENT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2013

	Firemen's Relief & Pension Fund	Agency Funds
ASSETS		
Cash and equity in pooled investments	$ 18,550	$ 906,803
Investments, at fair value		
State Treasurer's Investment Pool	2,252,533	-
Government Agencies (various)	614,535	-
Due from other governments		3,971
TOTAL ASSETS	2,885,618	910,774
LIABILITIES		
Accounts/payroll payable	5,025	640,343
Deposits and unearned revenue	-	270,431
Total Liabilities	5,025	910,774
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 2,880,593	$

The accompanying notes are an integral part of the financial statements

CITY OF KENT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Years Ended December 31, 2013

		Firemen's Relief & Pension Fund
ADDITIONS		
Contributions:		
Employer	$	155,012
Investment earnings:		
Interest		51,800
Unrealized net gain/(loss) in fair value of investments		(74,213)
TOTAL ADDITIONS		132,599
DEDUCTIONS		
Benefits		321,149
TOTAL DEDUCTIONS		321,149
CHANGE IN NET POSITION		(188,550)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, January 1		3,069,143
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, December 31	$	2,880,593

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kent, King County, Washington, was incorporated on May 28, 1890 and operates under a Mayor/Council form of government under the laws of the State of Washington applicable to an optional code city (RCW 35A). The City of Kent is served by a full-time Mayor and seven part-time council members, all elected at large to four-year terms. The City of Kent provides the full range of municipal services including a water utility, sewer and drainage utility, a municipal golf complex, and municipal court.

The accounting policies of the City of Kent conform to generally accepted accounting principles (GAAP) applicable to governmental units, and are regulated by the Washington State Auditor's Office.

Effective for fiscal year 2013, the City implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 65 – *Item previously reported as Assets and Liabilities* – This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The following provides a summary of the City's more significant accounting policies. They are presented to assist the reader in interpreting the financial statements and other data in this report.

a. REPORTING ENTITY

Based on the criteria of Statement No. 14, as amended by Statement No. 61, of the Government Accounting Standards Board (GASB), "The Financial Reporting Entity", the City's Comprehensive Annual Financial Report (CAFR) includes the financial position and results of operations of all funds, agencies and boards for which the City is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either the ability to impose the Primary Government's will, or the component unit provides a financial benefit to or imposes a financial burden on the primary government. The Special Events Center Public Facilities District (PFD) meets these criteria. In this case, the City appoints a voting majority of the board, and the organization presents a potential financial benefit or burden to the City. The PFD is discretely presented in the financial statements in a separate column on the Basic Financial Statements. For further details on the Component Unit and how to obtain copies of the completed financial statements of the component unit, please see Note 17 – COMPONENT UNIT.

See Note 16 **-** JOINT VENTURE for discussion of the Valley Communications Center which is a joint public safety dispatching authority for five member cities. The City reports its equity interest in the joint venture.

JOINTLY GOVERNED ORGANIZATIONS – On April 27, 2010, the passage of Proposition No. 1 authorized the merger of the Kent Fire Department and King County Fire District 37 into one organization, the Kent Regional Fire authority. The new organization, effective officially on July 1, 2010, retained the name of Kent Fire Department. The RFA is not financially accountable to the City of Kent. The City of Kent does not have an ongoing financial interest in the RFA and the RFA is not financially dependent upon the City of Kent. The RFA imposes its own property tax levy and fire benefit charge. The RFA's board is comprised of six voting members and two non-voting members. Three of the voting members are from the current Kent City Council: Dennis Higgins, Bill Boyce and Les Thomas. In addition, the board has three members from Fire District 37 and one non-voting member from the City of Covington and one non-voting member from the City of SeaTac.

b. **BASIC FINANCIAL STATEMENTS**

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report on all non-fiduciary activities of the City and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primary government is separated from its component unit.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity between the governmental activities and the business-type activities are shown in the government-wide financial statements. The “doubling up” effect of internal service fund activity have been removed from the government-wide financial statements with the expenses shown in the various functions and segments on the Statement of Activities. Quasi external transactions, like payments-in-lieu of taxes and the sale of utility services from the Enterprise Funds to the other functions of the City, are not eliminated for the financial statements. Elimination of those charges would distort the direct costs and program revenue reported for the various functions.

The government-wide Statement of Net Position reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets and deferred outflows less liabilities and deferred inflows equals net position, with the assets, deferred outflows, liabilities and deferred inflows shown in order of relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is reflective of constraints place on its use by either; 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred that for purposes for which both restricted and unrestricted net position are available.

The Statement of Activities demonstrates the degree to which the direct expenses of the various functions, programs and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, program or segment. Interest on governmental activities long-term debt is not allocated to the various functions or programs. Program revenues include: 1) charges to customers or users (user charges) who purchase, use or directly benefit from goods, services or privileges provided by a particular function, program or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, program or segment. Taxes, investment income and other revenues that are not directly identifiable with a function, program or segment are included as general revenues. Internally dedicated resources are also reported as general revenues. The general revenues support the net costs of the functions, programs or segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds. Although GASB Statement No. 34 sets forth minimum criteria for the determination of major funds, it also gives governments the option of displaying other funds as major funds. The City has opted to display some funds as major funds because of community focus. Major governmental and enterprise funds are reported in separate columns in the fund financial statements, while non-major funds are combined into a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

The internal service funds, which provide services to the other funds of the government, are presented in a single column in the proprietary fund financial statements. Because the principal users of the internal service funds are the City's governmental activities, the assets, deferred outflows, liabilities and deferred inflows of the internal service funds are consolidated into the governmental activities column of the government-wide Statement of Net Position.

c. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements use the economic resources measurement focus, and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar revenue are recognized when the eligibility requirements imposed by the provider are met.

Governmental fund types are presented, in the fund financial statements, using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets, and unassigned fund balance is a measure of available spendable resources. The *modified accrual basis* of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. For this purpose, revenue is considered to be available when collected within sixty days after year-end. However, debt service expenditures, and payments for compensated absences and claims and judgments are recorded when due.

Property, sales, use, real estate excise, utility, business and occupation, admissions, and gambling taxes are susceptible for accrual. Intergovernmental revenues that reimburse expenditures are accrued. Investment earnings are accrued when earned. Charges for services, fines and forfeitures, licenses and permits, and other miscellaneous revenues are recorded upon receipt and are not susceptible for accrual. Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered an expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued, but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

The government reports the following major governmental funds:

General Fund - The General Fund is the principal operating fund of the City and accounts for the financial resources of the City which are not accounted for in any other fund. Principal sources of revenue are comprised of property taxes, sales and use taxes, utility taxes, licenses and permits, state shared revenues, charges for services and interest income. Primary expenditures are for general city government, police protection, fire inspections, prevention and emergency management, park and street maintenance, cultural and recreational services, and health and human services.

Capital Improvement Fund – This special revenue fund accounts for a portion of the City's sales tax as well as real estate excise tax that is utilized to provide funding for governmental non-street related capital and operating projects, and debt on those projects.

Special Assessments Fund – This debt service fund records payments from property owners for special assessments related to those properties, and the payment of debt service of local improvement districts' bond issues. A large portion of the City's infrastructure capital improvements have been paid through the issuance of local improvement district bonds.

Non-Voted General Obligation Debt Fund – This debt service fund records the principal and interest payments on non-voted Councilmanic General Obligation Bonds. Funding is transfers from other funds.

Street Capital Projects Fund – This capital projects fund accounts for the resources and payments for transportation and related improvements to the City's infrastructure. The fund's resources include grants and contracts, street related excise taxes, and utility taxes.

The City reports the following major proprietary funds:

Water Fund – This enterprise fund accounts for the water distribution system of the City. The utility recovers its costs through user charges.

Sewerage Fund – This enterprise fund accounts for the sewer and storm drainage systems of the City. The utility recovers its costs through user charges.

Golf Complex Fund – This enterprise fund accounts for the golf complex of the City that includes a par 27 9-hole golf course, an 18-hole par 72 golf course, a driving range, a mini putt facility and a merchandise center. The fund recovers its costs through user fees.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds are used to account for the financing of specific services performed by designated organizations within the City for other organizations within the City. The City's internal service funds are comprised of the Equipment Rental, Central Service, Facilities, and Insurance funds.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the City as trustee or agent for individuals, private organizations or other governmental units.

The City's pension trust fund, the Firemen's Relief & Pension Fund, accounts for pension benefits for former City firefighters.

The City's agency fund functions primarily as a clearing mechanism for cash resources which are collected by the City of Kent, held for a period of time and then disbursed to authorized recipients or funds. Agency funds are custodial in nature and do not measure results of operations or have a measurement focus.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures or expenses, as appropriate. The City's resources are allocated to and accounted for in individual funds according to the purpose for which they are spent and how they are controlled.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses derive from providing goods and services in connection with the fund's principle on going operation.

d. **BUDGET AND BUDGETARY ACCOUNTING**

Budget Process

Budgets serve as control mechanisms in the operations of governmental units. Legal budgetary (expenditure) control in the City of Kent is at the fund level, but budget and actual information is maintained by project, organization, program and object. Supplemental appropriations that amend total expenditures or in the case of Proprietary and Fiduciary Funds amend working capital require a City Council ordinance.

Appropriated budgets are adopted for the general and certain special revenue funds on the modified accrual basis of accounting on a biennial basis. Budgets for project/grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects. Since these funds are not budgeted on an annual basis, budgetary comparisons are not presented.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without re-appropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

The individual funds within each fund type which are included in the City's annual operating budget are listed below.

General Fund	Special Revenue Funds
General Fund	Lodging Tax Fund
	Youth/Teen Programs Fund

The City adopts a biennial budget by December of the fiscal year preceding the biennium, after almost a full year of analysis by staff and Council. The first step in analysis involves the development of service issues and goals and their prioritization by Council as well as establishing revenue forecasts to be approved by Council. The second step involves the establishment of the baseline budget required to carry existing programs into the next year. The emphasis is placed on the General and Special Revenue Funds since the operation of other funds are tied to ordinances, contractual agreements or separately established rate structures. Once the baseline operations have been reviewed and adjusted based on administrative policy, additional services are included to the level of projected available resources after the establishment of sufficient fund balances.

The steps in the budget process are as follows:

(1) The Chief Administrative Officer and Mayor submit a proposed biennial budget to the City Council. This budget is based on priorities established by the Council, cost estimates provided by the City departments and balanced with revenue estimates.

(2) The City Council conducts public hearings on the proposed budget in September and October.

(3) The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced biennial budget no later than December 31.

(4) The final operating budget as adopted is published and distributed within the first three months of the following year. The adopted budget is made available to the public on the city's website.

The biennial budget statue requires a mid-biennium review and modification of the second year of the adopted budget. The review steps are largely the same as the original budget process, although on a smaller scale. The Council adopts by ordinance the adjustments to the second year of the final balanced biennial budget no later than December 31.

Annual appropriated budgets are adopted at the fund level, on a biennial cycle. Transfers or revisions within budgets are allowed if approved by the Chief Administrative Officer. Only City Council has the authority to increase a given fund's annual budget. A budget ordinance summarizing Council approved increases or adjustments is adopted by ordinance on a quarterly basis. The budget amounts in the financial statements are the final amounts as revised during the year. Budget to Actual comparisons are only prepared for annually budgeted funds.

Appropriation amounts shown on the accompanying financial statements reflect final budget values, including all adopted adjustments to original budget amounts.

Fund	Original Budget	Supplemental Appropriations	Final Budget
General Fund	$72,339,280	$ 611,559	$72,950,839
Special Revenue Funds:			
Lodging Tax	178,500	-	178,500
Youth/Teen Programs	886,139	-	886,139
Total	$73,403,919	$ 611,559	$74,015,478

Reconciliation of Budgetary Information to GAAP

For managerial purposes, the City of Kent treats the General Fund, Public Safety Retiree, Other Operating Grants and Projects, and Kent Events Center funds separately. However, the latter three funds do not meet the criteria of a special revenue fund as set forth in GASB Statement No. 54 and for reporting purposes are presented in combination with the General Fund in order to comply with GAAP. However, the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual on page 33 compares only the General Fund as adopted in the budget along with the related revenues and expenditures. It does not include the budget or actual data for the Public Safety Retiree, Other Operating Grants and Projects, or Kent Events Center Funds. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual is also presented for the Public Safety Retirees fund and can be found on page 106. Below, you will find the combining of these funds with the General Fund for reporting purposes.

	General Fund	Public Safety Retiree	Operating Grants & Projects	Kent Events Center Fund	Eliminations	Revised General Fund
Revenues:						
Taxes	$ 55,023,515	-	-	-	-	$ 55,023,515
Licenses & permits	5,099,915	-	-	-	-	5,099,915
Other grants/shared revenue	7,462,288	-	25,000	-	-	7,487,288
Charges for service	5,125,968	-	-	-	-	5,125,968
Fines and forfeitures	1,493,381	-	-	-	-	1,493,381
Interest income	127,077	1,052	-	-	-	128,129
Contributions & donations	31,864	694,206	38,750	-	-	764,820
Other miscellaneous revenue	1,141,451	-	-	-	-	1,141,451
Total Revenues	75,505,459	695,258	63,750	-	-	76,264,467
Expenditures:						
General Government	6,861,816	-	8,529	-	-	6,870,345
Judicial	2,781,005	-	-	-	-	2,781,005
Public Safety	33,614,224	782,543	-	-	-	34,396,767
Community development	5,132,560	-	-	-	-	5,132,560
Public works	4,742,973	-	-	-	-	4,742,973
Leisure services	9,503,625	-	60,051	471,684	-	10,035,360
Health & human services	4,536,565	-	24,416	-	-	4,560,981
Capital outlay	10,499	-	38,175	-	-	48,674
Total Expenditures	67,183,267	782,543	131,171	471,684	-	68,568,665
Excess (Deficiency) of Revenues over (under) Expenditures	8,322,192	(87,285)	(67,421)	(471,684)	-	7,695,802
Other Financing Sources (uses)						
Transfers in	1,036,877	250,000	173,449	751,405	(1,174,854)	1,036,877
Transfers out* (see below)	(3,991,369)	-	-	-	1,174,854	(2,816,515)
Total Other Financing Sources (Uses)	(2,954,492)	250,000	173,449	751,405	-	(1,779,638)
Net Change in Fund Balance	5,367,700	162,715	106,028	279,721	-	5,916,164
Fund Balance, January 1	4,129,976	699,508	270,087	(2,735,808)	-	2,363,763
Fund Balance, December 31	$ 9,497,676	$ 862,223	$ 376,115	$(2,456,087)	$ -	$ 8,279,927

*Transfers Out Reconciliation to General Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 33 is shown as follows:

Transfers Out per Budget		
Less Intrafund Transfer to:	Public Safety Retiree	$ 250,000
	Other Operating Grants & Projects	173,449
	Kent Events Center Fund	751,405
		$ 1,174,854

e. **ASSETS & DEFERED OUTFLOWS, LIABILITIES & DEFERRED INFLOWS, AND FUND EQUITY**

(1) Cash and Cash Equivalents
The City of Kent has defined cash and cash equivalents as cash on hand, demand deposits, and all short-term investments with original maturities of three months or less from the date of purchase. Included in this category are all funds invested in the Local Government Investment Pool. Excluded from this category are cash balances held by fiscal Agents since the City does not have discretionary use of these funds.

(2) Investments (refer to Note 4)
The City reports investments at amortized costs (state pool) or historical costs (CDs) which approximates fair value in the statements of position and recognizes the corresponding change in fair value of investments in the year in which the change occurred. It is generally the City's

policy to hold investments to maturity.

(3) Receivables and Payables (refer to Note 5)
All receivables are shown net of an allowance for uncollectible accounts, if applicable.

(4) Inventory and prepaid items (refer to note 6)

(5) Deferred outflows
Deferred outflows of resources represent a consumption of net position (expenditure/expense) that applies to a future period and thus is shown on the Balance Sheet/Statement of Net Position until the period that it becomes an expenditure/expense.

(6) Deferred inflows
Deferred inflows of resources represent an acquisition of net position (revenue) that applies to a future period and thus is shown on the Balance Sheet/Statement of Net Position until the period that it becomes revenue.

(7) Compensated Absences (also refer to note 14)
Annual leave, based on a graduated scale of years of employment, is credited to each employee as it accrues. The maximum annual leave accrual for permanent employees is 240 hours. Upon employment termination, payment is made to the employee for the unused leave.

Employees are granted one sick leave day per month. The maximum an employee may accumulate and whether there is any payment of unused sick leave at termination varies according to union contract.

For the governmental fund financial statements, compensated absences are accrued only when due. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the outstanding vacation, compensatory time and benefits are recorded as a liability at year end. Compensated absences are liquidated when mature by the various operating funds accruing the liability.

(8) Refunded (Defeased) Bonds
The government may, from time to time, choose to refinance (defease) outstanding debt to take advantage of lower interest rates. In a *current refunding*, the proceeds of the refunding debt are applied immediately to pay off (redeem) the refunded debt. In other cases, the government may be prevented from redeeming debt prior to maturity or a contractually agreed upon call date. In an *advance refunding*, the proceeds of the refunding debt are placed in an irrevocable trust to make the future debt payments on the refunded debt. With a refunding, the refunded debt is removed from the government's books and the refunding debt is added.

Refer to Note 10 for further disclosures related to any current year debt refunding transactions, or any advance refunding where funds are still outstanding in a trust account.

f. **ENCUMBRANCES**

The City of Kent does not formally use the encumbrance mode of accounting. City departments that are currently utilizing the City's new purchasing system have the option to record encumbrances for their budget status reports, but since they do not constitute expenditures or liabilities, encumbrances are not reported in either the fund financial statements or the government-wide financial statements. For operating funds, amounts not expended within the budget year lapse. For project funds, budgets remain available until completion of the project.

g. **INTERFUND TRANSACTIONS AND TRANSFERS**

Because governmental units operate with a number of funds, each performing its specific functions, there are instances where funds are required to do business with each other. This business can be categorized as either an interfund transaction or an interfund transfer.

(1) **Interfund Transactions**

Interfund transactions are divided into two categories: interfund services provided and used transactions and reimbursement transactions.

Interfund services provided and used transactions are those transactions that would be treated as revenues, expenditures or expenses if they involved parties external to the City. These types of transactions are accounted for as ordinary revenues, expenditures or expenses of the funds involved. An example of this type of transaction is when the Parks Department buys water from the Water Department. This transaction is treated as an expenditure to the Parks Department and as a revenue to the Water Department.

Reimbursement transactions occur when expenditures are initially made from one fund but are more appropriately applicable to another fund. These items are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund initially charged. An example of this type of transaction occurs when the Public Works and Finance Departments allocate a certain amount of their time to provide services for the Utility Divisions administratively overseen by those departments (i.e. the Water and Sewer Utilities are administratively under the Public Works Department and Customer Service and Meter Reading are administratively under the Finance Department). The expense is transferred to the Utility Divisions with a corresponding reduction of expense in the Public Works and Finance Departments. These reductions are accounted for in separate organizational units so both gross and net expenditures may be tracked.

(2) **Interfund Transfers**

Transfers are required where revenue is generated in one fund and expenditures are paid for in other funds. The majority of transfers occur with respect to capital projects where certain General and Special Revenue Fund revenues are transferred to finance various capital projects. Other operating transfers of a recurring nature are required to fund debt service.

A summary of transfers by fund type is as follows:

	Transfers In	Transfers Out
Governmental Funds:		
Major Funds:		
General Fund	$ 1,036,877	$ 2,816,515
Capital Improvement Fund	2,361,219	7,772,929
Special Assessment Fund	-	130,451
Non-voted Debt	9,658,348	-
Street Capital Projects Fund	5,483,092	-
Subtotal	$ 18,539,536	$ 10,719,895

	Transfers In	Transfers Out
Non-major Funds:		
Street	$ -	$ 7,763,433
Lodging Tax	4,063	-
Youth/Teen Programs	-	781,426
Criminal Justice	74,803	125,000
Parks Capital Projects	800,000	-
Other Capital Projects	-	228,920
Technology Capital Projects	1,468,268	-
Facilities Capital Projects	52,712	-
Subtotal	$ 2,399,846	$ 8,898,779
Total Governmental	$ 20,939,382	$ 19,618,674
Proprietary Funds:		
Major Funds:		
Water Utility	$ -	$ 53,948
Sewerage Utility	-	77,631
Golf Complex	-	2,946
Subtotal	$ -	$ 134,525
Internal Service Funds:		
Equipment Rental	$ -	$ 134
Central Services	119,191	1,304,211
Facilities	-	949
Facilities	-	80
Subtotal	$ 119,191	$ 1,305,374
Total Proprietary	$ 119,191	$ 1,439,899
Total Transfers	$ 21,058,573	$ 21,058,573

h. **CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental and business-type columns in the government-wide financial statements. The capitalization threshold applied to the City's assets is $5,000 and it must have a useful life of more than three years. Infrastructure assets are reported on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

The initial capitalization of infrastructure assets reported as governmental activities include all such items regardless of their acquisition date. The historical cost for the initial reporting of these assets was established through back trending. An estimated current replacement cost was calculated and deflated to the estimated acquisition year by an appropriate price-level index to determine the historical cost.

Depreciation is computed on the straight-line method over the established useful life of the asset group as shown in the table below:

Depreciation Schedule	
Buildings	10-50 Years
Site Improvements	10-50 Years
Infrastructure	15-50 Years
Other Capital	3-10 Years

Property, Plant and Equipment for governmental activities is stated at historical cost, or market value at date received in the case of contributions. Purchase and construction of such assets are recorded as expenditures in the appropriate Governmental Fund and capitalized for government-wide reporting. Incomplete capital projects, including infrastructure, are capitalized as construction in progress at year end. Street related right of way purchases are recorded as land purchases at the time the projects are complete. Maintenance and repairs are charged as expenditures in the various Governmental Funds and are not capitalized. Depreciation is recorded on the government-wide statements.

Property, Plant and Equipment in the Proprietary Funds is stated at cost, or in the case of contributions at market value at the date received. Maintenance and repairs are expensed as incurred. Replacements which improve or extend the life of the asset are capitalized.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

A reconciliation between the governmental fund balance sheet *fund balance – total governmental* funds and *net position – governmental activities* as reported in the government-wide statement of net position is provided on page 27.

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

A reconciliation between the governmental fund statement of revenue, expenditures and changes in fund balance *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities is provided on page 31.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

4. DEPOSITS AND INVESTMENTS

The deposits and investment practices of the City of Kent are accounted for with a modified pooled cash arrangement. According to the investment policy presented in the Kent City Code Chapter 3.02, allowable investments consist of the State Treasurer's Investment Pool, banker's acceptances, certificates of deposit, U.S. government securities, and U.S. governmental agency securities.

DEPOSITS

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) up to $100,000 and by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC) for amounts over $100,000.

INVESTMENTS

Investments in the State Treasurer's Local Government Investment Pool (LGIP) are valued at amortized cost, which approximates fair value. Certificates of deposits held by the LGIP are valued at historical costs, which also approximate fair value. Each month, earnings from the LGIP are deposited to the City's bank account. The State Investment Pool was created by State statute, and is governed by the State Finance Committee and administered by the State Treasurer.

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

		Investment Maturities (In Years)		
Investment Type	**Fair Value**	**<1**	**1-5**	**6-10**
State Treasurer's Investment Pool	$ 65,007,079	$ 65,007,079	$ -	$ -
Government Agencies (various)	838,171	-	1,103	837,068
Certificates of Deposit	254,874	254,874	-	-
Total investments	66,100,124	65,261,953	1,103	837,068
Less investments held by Fiduciary Funds	(2,867,068)	(2,030,000)	-	(837,068)
Total Primary Government	$ 63,233,056	$ 63,231,953	$ 1,103	$ -

Reconciliation of cash, cash equivalents, deposits and investments to Statement of Net Position:

PRIMARY GOVERNMENT		
From Statement of Net Position:		
Cash & equity in pooled investments	$	23,622,183
Cash with fiscal agent/trustee		427,634
Investments, at fair value		39,820,977
Restricted cash and cash equivalents		1,426,387
Restricted investments, at fair value		3,375,000
Total from Statement of Net Position	$	68,672,181
Summary by Type:		
Cash on hand and in bank	$	5,011,491
Deposits with fiscal agent/trustee		427,634
Certificates of deposit		254,874
Subtotal		5,693,999
Investments		62,978,182
Total by Type	$	68,672,181
COMPONENT UNIT		
Special Events Center PFD:		
Cash on hand and in bank	$	1,686
Total Cash & Investments	$	1,686

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits, to the extent possible, the average life of the portfolio not exceed five years. As of December 31, 2013, the weighted average of maturity for the portfolio was 22 days. The LGIP is an unrated 2a-7 like pool, as defined by GASB Statement No. 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. As of December 31, 2013, the LGIP had a weighted average maturity of 57 days.

Credit Risk: State statute, as well as City policy, requires at the time of purchase that an investment carry a rating of one of the three highest credit ratings of a nationally recognized rating agency. As of December 31, 2013, the ratings for all fixed rate non-callable and callable agency securities were AAA. The LGIP is an unrated 2a-7 like pool. Per GASB Statement No. 40 guidelines, the LGIP balances are not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand accounts and certificates of deposit.

Concentration of Credit Risk: According to the City's investment policy, with the exception of US Treasuries and the LGIP, no more than 25% of the City's total investment portfolio will be invested in securities offered by a single issuer. In accordance with GASB Statement No. 40, the City will report any investment in any one issuer that is 5% or more of the total City portfolio. As of December 31, 2013, the City did not have any investments meeting that criterion.

Custodial Credit Risk: All bank deposits are covered 100% by federal depository insurance and pledged collateral on deposit with the Washington State Public Deposit Protection Commission (WSPDPC).

5. RECEIVABLES

The following table lists the receivables and accrued revenue by fund type and by source:

	Taxes	Accounts	Allowances for Uncollectibles	Assessments & Notes	Accrued Interest	Total
Governmental Activities:						
General Fund	$7,039,138	$ 275,671	$ (5,197)	$ -	$ -	$ 7,309,612
Capital Improvements Fund	1,151,255	11,500	-	-	-	1,162,755
Special Assessments Fund	-	-	-	14,900,590	-	14,900,590
Non-voted GO Debt	-	183	-	-	-	183
Street Capital Project Fund	-	330,326	(2,561)	-	-	327,765
Other Governmental Funds	1,132,575	1,377,598	-	-	-	2,510,173
Internal Service Funds	-	577,318	(75)	2,683,291	51	3,260,585
Subtotal	$9,322,968	$ 2,572,596	$ (7,833)	$ 17,583,881	$ 51	$29,471,663
Business-Type Activities:						
Water Fund	$ -	$ 1,671,831	$ (28,233)	$ 3,021,389	$ 1	$ 4,664,988
Sewerage Fund	-	5,623,980	(49,155)	2,994,133	3	8,568,961
Golf Complex Fund	-	65,907	(2,146)	-	-	63,761
Subtotal	$ -	$ 7,361,718	$ (79,534)	$ 6,015,522	$ 4	$13,297,710
Total Primary Government	$9,322,968	$ 9,934,314	$ (87,367)	$ 23,599,403	$ 55	$42,769,373
Component Unit Activities:						
Special Events Center PFD	$ 129,011	$ -	$ -	$ -	$ -	$ 129,011
Total Component Unit	$ 129,011	$ -	$ -	$ -	$ -	$ 129,011

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2013, the unearned revenue reported in the governmental funds related to special assessments was $14,900,590. Of that amount, $344,144 is delinquent.

The City of Kent uses the modified accrual basis of accounting for its Governmental Funds and the full accrual basis of accounting for its Proprietary and Pension Trust Funds as described in Note 1.c. In adopting this basis of accounting, the City recognizes revenue by recording various receivables and accrued revenue in its financial statements. The revenue recognition criterion by source is as follows:

a. TAXES RECEIVABLE

Taxes receivable consists of property taxes, sales taxes, and City assessed business and occupation, utility, lodging, real-estate excise taxes, and gambling taxes.

Property taxes are levied as of January 1 of each year. The taxes receivable at year end reflect only delinquent taxes. Revenue is recognized to the extent of collections within sixty days of year end. Taxes to be received beyond this period are recorded as deferred inflows. See Note 13 for additional details on property taxes.

Sales tax and lodging tax are collected by the state and remitted to the City on the last day of each month. Sales tax revenue is accrued at year end per GASB Statement No. 33, "Accounting and financial Reporting for Non-Exchange Transactions."

City assessed **utility taxes** are primarily due monthly and **business and occupation taxes, gambling taxes and admissions taxes** are due quarterly. The payment is due on the last day of the following month, except business and occupation taxes which are due by the last day of the quarter. Revenue is recognized to the extent of collections within sixty days of year end.

b. **ACCOUNTS RECEIVABLE**

In the General Fund, accounts receivable represent billing for miscellaneous licenses, permits, fines, and damages. In the Special Revenue and Capital Project Funds, accounts receivable represents reimbursement for grants particularly Housing and Community Development block grants for which the services have been provided. Enterprise Funds accounts receivable are primarily for utility amounts billed but uncollected at year end plus accruals for unbilled revenues. Accounts receivable are shown at net. See table above for allowance for estimated uncollectible amounts by fund type.

c. **ASSESSMENTS AND NOTES RECEIVABLE**

The Debt Service Fund accounts for assessments receivable used for redeeming assessment bonds. The City has assessments and miscellaneous notes receivable in its Proprietary Funds for development charges and notes in lieu of assessments.

d. **ACCRUED INTEREST RECEIVABLE**

Accrued investment interest totaling $55 was recognized at December 31, 2013. This interest was recorded in each fund based on its investment position.

e. **INTERFUND LOANS**

	Interfund Loan Receivable	Interfund Loan Payable
Governmental Activities:		
Governmental Funds:		
General Fund	$ 100,000	$ -
Capital Improvement Fund	-	8,800,000
Streets Capital Projects Fund	-	699,808
Other Governmental Funds	-	175,000
Internal Service Funds:		
Equipment Rental	1,500,000	-
Business-type Activities:		
Proprietary Funds:		
Enterprise Funds:		
Water Fund	9,900,000	-
Sewerage Fund	774,808	-
Golf Complex Fund	-	2,600,000
Totals	$ 12,274,808	$ 12,274,808

The net internal balances shown on the Statement of Net Position is $8,074,808 due from governmental activities to business-type activities.

In December 2013, the Mayor approved a $1,500,000 one-year interfund loan from the Equipment Rental Fund to the Golf Complex Fund and a $1,100,000 one-year interfund loan from the Water Fund to the Golf Complex Fund to cover working capital. Also approved was a $699,808 loan from the Sewerage Fund to the Street Capital Projects Fund. All loans are bearing interest at the City's daily funds rate.

Also executed by the City on December 31, 2013, were non-interest bearing loans for $100,000 from the General Fund to the Housing & Community Development Fund and a $75,000 loan from the Sewer Fund to the Environmental Mitigation Fund that were needed to cover year-end expenditures.

Additionally, an interest bearing loan for $8,800,000 from Water Fund to Other Capital Projects Fund was executed. This loan was approved to cover year-end expenditures as well as temporary cash flow shortages.

6. INVENTORIES AND PREPAID ITEMS

Inventories carried in Proprietary Funds are valued under the first-in first-out method. A physical count is taken at year-end. Governmental Funds use the purchase method whereby inventory items are considered expenditures when purchased. Governmental activities have not recorded inventories on the books, and they are not presented in the basic statements. The City does not consider these to be material items when reporting governmental activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City uses the consumption method to account for prepaid items.

7. PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

a. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS

Below is a summary of 2013 changes in governmental capital assets:

	Balance January 1	Additions	Transfers & Retirements	Balance December 31
Governmental Activities:				
Capital Assets not being depreciated:				
Land	$ 219,458,162	$ -	$ -	$ 219,458,162
Construction in Progress	106,878,856	6,025,284	(6,055,847)	106,848,293
Total non-depreciable assets	326,337,018	6,025,284	(6,055,847)	326,306,455
Capital Assets being depreciated:				
Buildings	126,061,620	2,314,339	-	128,375,959
Site Improvements	53,289,354	373,268	-	53,662,622
Equipment	49,658,683	2,706,307	(286,659)	52,078,331
Infrastructure	531,178,891	2,447,083	-	533,625,974
Total depreciable assets, gross	760,188,548	7,840,997	(286,659)	767,742,886
Less Accumulated Depreciation for:				
Buildings	(27,540,248)	(1,321,911)	-	(28,862,159)
Site Improvements	(14,782,019)	(2,203,699)	-	(16,985,718)
Equipment	(24,783,199)	(17,581,421)	245,291	(42,119,329)
Infrastructure	(233,991,151)	(10,557,553)	-	(244,548,704)
Total Accumulated Depreciation	(301,096,617)	(31,664,584)	245,291	(332,515,910)
Total depreciable assets, net	459,091,931	(23,823,587)	(41,368)	435,226,976
Governmental Activities Capital Assets, net	$ 785,428,949	$(17,798,303)	$(6,097,215)	$ 761,533,431

b. **BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS**

A summary of Business-type Property, Plant, and Equipment at December 31, 2013 follows:

	Balance January 1	Additions	Transfers & Retirements	Balance December 31
Business-type Activities:				
Capital Assets not being depreciated:				
Land	$ 11,125,912	$ 241,104	$ -	$ 11,367,016
Construction in Progress	146,689,605	14,758,884	(9,371,069)	152,077,420
Total non-depreciable assets	157,815,517	14,999,988	(9,371,069)	163,444,436
Capital Assets being depreciated:				
Buildings	5,181,604	-	-	5,181,604
Site Improvements	245,340,025	10,133,731	(627,797)	254,845,959
Equipment	3,816,395	-	-	3,816,395
Total depreciable assets, gross	254,338,024	10,133,731	(627,797)	263,843,958
Less Accumulated Depreciation for:				
Buildings	(4,287,679)	(151,360)	-	(4,439,039)
Site Improvements	(91,316,711)	(5,574,340)	-	(96,891,051)
Equipment	(2,827,737)	(143,583)	-	(2,971,320)
Total Accumulated Depreciation	(98,432,127)	(5,869,283)	-	(104,301,410)
Total depreciable assets, net	155,905,897	4,264,448	(627,797)	159,542,548
Business-type Activities Capital Assets, net	$ 313,721,414	$ 19,264,436	$ (9,998,896)	$ 322,986,984

c. **DEPRECIATION EXPENSE BY FUNCTION/PROGRAM**

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

Governmental Activities:	
General Government	$ 3,688,446
Judicial	51,229
Public Safety	453,620
Community Development	8,659
Public Works	10,717,720
Leisure Services	2,937,059
Health and Human Services	32,531
Library	99,243
Total Depreciation Expense – Governmental Activities	$ 17,988,507
Business-type Activities:	
Water	$ 1,685,287
Sewerage	3,983,969
Golf Complex	200,027
Total Depreciation Expense – Business-type Activities	$ 5,869,283

8. SHORT-TERM DEBT

The City of Kent did not have any short-term debt during the current fiscal year, January through December 2013.

9. LEASES

The City leases storage space and equipment under non-cancelable operating leases. Operating leases do not give rise to property rights or lease obligations (long-term debt), and therefore the results of the leases agreement are not reflected in the City's Statement of Net Position.

Operating Leases

The City leases space from Charlie Perkins for storage space on Smith Street. The City pays $4,750 per month plus the property tax each year. For 2013, the City paid $57,000 plus $8,517 in property taxes for a total of $65,517. The lease term is one year expiring in March, but the City is in the process of entering into a new five year lease agreement with Mr. Perkins.

The Golf Complex has leases with Yamaha Leasing for 76 Golf carts with payments of $6,369 per month ending October 2013. No lease payments are due for the months of November 2013 through February 2014 when a new eight month lease of $6,368 per month, plus taxes will begin.

The following is a schedule of future minimum lease payments under the operating leases:

Fiscal Year	Amount
2014	$ 65,194

10. LONG-TERM INDEBTEDNESS

PRIMARY GOVERNMENT:
The City of Kent has two types of long-term debt: (a) **bonded debt** (net of unamortized premium/discount) of $85,739,093 and (b) **nonbonded debt** of 59,527,121 for a total of $145,266,214 in long-term indebtedness.

a. **BONDED DEBT**
Bonded debt has three components: General Obligation, Special Assessment, and Revenue.

(1) **General Obligation Bonds**

General Obligation Bonds totaling $60,993,000 are direct obligations of the City for which its full faith and credit is pledged. They have been issued for governmental and business-type activities. Debt service for governmental activities is paid from the General Obligation Debt Service voted and non-voted funds. Debt service for voted bond issues is funded with special property tax levies. Currently, the City does not have any outstanding voted debt.

Debt service for LTGO (non-voted) bond issues is funded by transfers from operating funds. Debt service for business-type activities is paid for by the Water, Sewerage and Golf enterprise funds. Additional LTGO bond capacity at December 31, 2013 is $110,086,952. Total additional general obligation capacity for all purposes at December 31, 2013 is $869,159,480. The general obligation bonds have various interest rates between 2.0 percent and 5.45 percent with maturity dates to 2025. The City's general obligation bonds carry a Moody's "Baa2" rating as of February 6, 2012 and Standard and Poor's "AA-" rating as of November 26, 2013.

(2) **Special Assessment Bonds**

Special Assessment Bonds totaling $2,700,000 are paid through the collection of special assessments. In accordance with GASB Statement No. 6, special assessments debt is reported in the government's financial statements. The special assessment bonds are supported solely by the property owners and the Local Improvement Guarantee Fund and are not a general obligation of the City. As of December 31, 2013, the guaranty reserve was $272,726, which amounts to 10.1 percent of net outstanding debt. The account is funded with transfers from closed special assessment districts, interest income and as a cost of establishing a special assessment district.

(3) **Revenue Bonds**

Revenue Bonds are payable from pledged revenues generated by the respective Proprietary Funds. The Water and Sewerage Funds' outstanding Combined Utility System Revenue Bonds, Series 2009A and Series 2009B Taxable (Build America Bonds) at December 31, 2013, totaled $21,470,198, including unamortized premium, for the 2009 issue, split equally between each fund. The interest rates of the revenue bonds range from 3.0 percent to 6.12 percent with maturity dates to 2029. The bonds have been assigned a rating of AA by Standard & Poor's Ratings Services.

The following is a summary of long-term bonded debt transactions of the City for the year ended December 31, 2013:

Previous year amounts in the following tables have been restated to reflect the implementation of GASB Statement No. 65.

	Governmental Activities		Business-type Activities		
	General Obligation	Special Assessment	General Obligation	Revenue	Total
Net Bonded Long-Term Debt Payable at 1/1	$ 62,704,394	$ 3,822,681	$ 4,632,517	$ 22,477,223	$ 93,636,815
Unamortized Discount-prior year	104,306	-	-	-	104,306
Unamortized Premium-prior year	(758,217)	-	-	(367,223)	(1,125,440)
Bonded Long-Term Debt Payable at 1/1	62,050,483	3,822,681	4,632,517	22,110,000	92,615,681
Debt retired or extinguished	4,722,909	1,122,681	967,091	945,000	7,757,681
Bonded Long-Term Debt Payable at 12/31	57,327,574	2,700,000	3,665,426	21,165,000	84,858,000
Unamortized Discount	(95,942)	-	-	-	(95,942)
Unamortized premium	671,837	-	-	305,198	977,035
Net Bonded Long-Term Debt Payable at 12/31	$ 57,903,469	$ 2,700,000	$ 3,665,426	$ 21,470,198	$ 85,739,093
Current Portion	$ 5,066,333	$ 725,000	$ 545,667	$ 975,000	$ 7,312,000

The following is a summary of bonded debt issuance and redemption information as of December 31, 2013

	Issuance Date	Maturity Date	Interest Rate	Original Amount	Redemption to Date	Outstanding 12/31/13	Due Within One Year
GENERAL BONDED DEBT:							
GENERAL OBLIGATION BONDS – GOVERNMENTAL ACTIVITIES							
LTGO Bonds:							
General Purpose	2003	2018	2.3-5.5%	$ 7,518,000	$ 6,720,000	$ 798,000	$ 143,000
General Purpose	2004	2021	2-4.13%	16,505,000	7,575,426	8,929,574	1,329,333
General Purpose	2005	2020	4.05%	2,252,000	367,000	1,885,000	224,000
General Purpose	2006	2024	4.0-5.0%	12,000,000	1,800,000	10,200,000	800,000
Less: Unamortized Discount					40,677	(40,677)	
General Purpose	2008	2025	4.1-5.2%	24,000,000	3,280,000	20,720,000	725,000
Less: Unamortized Discount					55,265	(55,265)	
General Purpose	2009	2019	3.0-4.0%	8,410,000	2,910,000	5,500,000	835,000
Plus: Unamortized Premium					(194,033)	194,033	
General Purpose	2012	2022	2.0-4.5%	10,840,000	1,545,000	9,295,000	1,010,000
Plus: Unamortized Premium					(477,804)	477,804	
Total General Obligation – LGTO (Net)				$ 81,525,000	$23,621,531	$57,903,469	$ 5,066,333
TOTAL GOVERNMENTAL ACTIVITIES (Net)				$ 81,525,000	$23,621,531	$57,903,469	$ 5,066,333
GENERAL OBLIGATION BONDS – BUSINESS-TYPE ACTIVITIES							
LTGO Bonds:							
Drainage	2004	2021	2-4.13%	6,775,000	3,109,574	3,665,426	545,667
Sewerage – 93 Refunding	2005	2020	4.05%	2,437,000	2,437,000	-	-
Sewerage – 96 Refunding	2006	2013	4.05%	1,125,000	1,125,000	-	-
Total Sewerage Fund (Net)				$ 10,337,000	$ 6,671,574	$ 3,665,426	$ 545,667
TOTAL BUSINESS-TYPE ACTIVITIES (Net)				$ 10,337,000	$ 6,671,574	$ 3,665,426	$ 545,667
TOTAL GENERAL OBLIGATION BONDS (Net)				$ 91,862,000	$30,293,105	$61,568,895	$ 5,612,000

	Issuance Date	Maturity Date	Interest Rate	Original Amount	Redemption to Date	Outstanding 12/31/13	Due Within One Year
SPECIAL ASSESSMENT BONDS – GOVERNMENTAL ACTIVITIES:							
LID 340,349	1999	2014	4.1-5.9%	$ 13,221,661	$13,221,661	$ -	$ -
LID 351	2001	2015	3.8-5.5%	5,367,217	5,367,217	-	-
LID 350, 352, 354	2003	2013	3.75-%	1,363,439	1,363,439	-	-
LID 353 et. al.	2004	2019	2.5-4.7%	11,758,557	9,058,557	2,700,000	725,000
TOTAL SPECIAL ASSESSMENT BONDS				$ 31,710,874	$29,010,874	$ 2,700,000	$ 725,000
TOTAL GENERAL BONDED DEBT (Net)				$123,572,874	$59,303,979	$64,268,895	$ 6,337,000

	Issuance Date	Maturity Date	Interest Rate	Original Amount	Redemption to Date	Outstanding 12/31/13	Due Within One Year
REVENUE BONDS – BUSINESS-TYPE ACTIVITIES:							
Water Fund:							
Revenue Bonds Series A	2009	2018	3.0-5.0%	$ 4,560,000	$ 1,917,500	$ 2,642,500	$ 487,500
Plus: Unamortized Premium					(152,599)	152,599	
Revenue Bonds Series B	2009	2029	5.06-6.12%	$ 7,940,000	$ -	$ 7,940,000	$ -
Total (Net)				$ 12,500,000	$ 1,764,901	$10,735,099	$ 487,500
Sewerage Fund:							
Revenue Bonds Series A	2009	2018	3.0-5.0%	$ 4,560,000	$ 1,917,500	$ 2,642,500	$ 487,500
Plus: Unamortized Premium					(152,599)	152,599	
Revenue Bonds Series B	2009	2029	5.06-6.12%	$ 7,940,000	$ -	$ 7,940,000	$ -
Total (Net)				$ 12,500,000	$ 1,764,901	$10,735,099	$ 487,500
TOTAL REVENUE BONDS (Net)				$ 25,000,000	$ 3,529,802	$21,470,198	$ 975,000
TOTAL BONDED DEBT (Net)				$148,572,874	$62,833,781	$85,739,093	$ 7,312,000

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

	Governmental Activities		Business-type Activities		
Year	**Principal**	**interest**	**principal**	**interest**	**Total**
2014	$ 5,066,333	$ 2,627,461	$ 545,667	$ 174,692	$ 8,414,153
2015	5,058,711	2,415,978	509,289	147,408	8,131,386
2016	5,055,089	2,194,566	472,911	120,671	7,843,237
2017	5,068,473	1,978,884	420,527	95,843	7,563,727
2018	5,046,857	1,752,870	368,143	73,765	7,241,635
2019-2023	24,672,111	5,482,340	1,348,889	109,881	31,613,221
2024-2028	7,360,000	509,625	-	-	7,869,625
Total	$57,327,574	$ 16,961,724	$ 3,665,426	$ 722,260	$ 78,676,984

The estimated annual debt service requirements to maturity for special assessment bonds are as follows:

	Governmental Activities		
Year	**Principal**	**Interest**	**Total**
2014	$ 725,000	$ 125,550	$ 850,550
2015	750,000	91,838	841,838
2016	675,000	56,963	731,963
2017	550,000	25,575	575,575
Total	$ 2,700,000	$ 299,926	$ 2,999,926

Special assessment bonds amortization amounts are estimated since they are not term bonds, but are called as special assessment revenue is collected.

Revenue bond debt service requirements to maturity are as follows:

	Water Revenue Bonds		Sewerage Revenue Bonds		
Year	**Principal**	**interest**	**principal**	**interest**	**Total**
2014	$ 487,500	$ 573,972	$ 487,500	$ 573,972	$ 2,122,944
2015	507,500	554,472	507,500	554,472	2,123,944
2016	527,500	534,172	527,500	534,172	2,123,344
2017	550,000	513,072	550,000	513,072	2,126,144
2018	570,000	491,072	570,000	491,072	2,122,144
2019-2023	3,217,500	1,977,680	3,217,500	1,977,680	10,390,360
2024-2028	3,857,500	987,335	3,857,500	987,335	9,689,670
2029-2033	865,000	52,938	865,000	52,938	1,835,876
Total	$10,582,500	$ 5,684,713	$10,582,500	$ 5,684,713	$ 32,534,426

DISCRETELY PRESENTED COMPONENT UNIT – SPECIAL EVENTS CENTER PFD:

The City of Kent Special Events Center Public Facilities District (PFD) has outstanding bonded debt (net of unamortized amounts) of $61,120,339.

The following is a summary of bonded debt issuance and redemption information as of December 31, 2013:

	Issuance Date	**Maturity Date**	**Interest Rate**	**Original Amount**	**Redemption to Date**	**Outstanding 12/31/13**	**Due Within One Year**
Sales Tax Bonds	2008	2037	4-5.25%	$ 53,150,000	$ -	$53,150,000	$ -
Plus: Unamortized Premium					(950,339)	950,339	
Revenue Bonds	2008	2020	3.16-5.75%	10,130,000	3,110,000	7,020,000	745,000
TOTAL BONDED DEBT (Net)				$ 63,280,000	$ 2,159,661	$61,120,339	$ 745,000

The Special Events Center Public Facilities District's annual debt service requirements to maturity for their sales tax and revenue bonds are as follows:

Special Events Center Public Facilities District			
Year	**Principal**	**Interest**	**Total**
2014	$ 745,000	$ 3,051,060	$ 3,796,060
2015	865,000	3,016,053	3,881,053
2016	980,000	2,973,244	3,953,244
2017	1,100,000	2,921,755	4,021,755
2018	1,250,000	2,862,861	4,112,861
2019-2023	8,760,000	13,154,535	21,914,535
2024-2028	14,220,000	10,479,515	24,699,515
2029-2033	19,520,000	6,192,625	25,712,625
2034-2038	12,730,000	1,663,075	14,393,075
Total	$ 60,170,000	$46,314,723	$ 106,484,723

Arbitrage Compliance

All arbitrage compliance as per Section 148(f) of the Internal Revenue Service regulations, as amended, of the Internal Revenue Code for the City's tax-exempt bonds is current.

b. **NONBONDED LONG-TERM DEBT**

Special assessments on City property, notes, contracts, capital leases and compensated absences payable for a period greater than one year are recorded as long-term liabilities for Governmental Activities and in the individual Proprietary Funds.

The City has certain contracts that are considered direct obligations of the City for which its full faith and credit is pledged. Debt service is paid from the Non-Voted Debt Service Fund. It is funded by transfers from operating funds. Long-term debt for the long-term portion of compensated absences of $1,736,360 is included with the total non-bonded long-term debt for governmental activities. See Note 14a for additional information pertaining to compensated absences.

The City has non-bonded Proprietary Fund long-term debt payable from revenue generated by respective Proprietary Funds. The Water and Sewerage Funds have intergovernmental loans for specific capital projects. Long-term debt for the long-term portion of compensated absences of $126,559 is recorded in the Proprietary Funds. See Note 14a for additional information pertaining to compensated absences.

The following is a summary of non-bonded debt issuance and redemption information as of December 31, 2013:

	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES:						
General Obligation:						
Contract-King County 1996		$ 1,810,709	$ -	$ 1,810,709	$ -	$ -
Contract-Valley Comm 2010 Ref	2015	647,000	-	215,000	432,000	212,000
Trust Fund Loan (Streets) 2004	2024	5,964,930	-	432,775	5,532,155	507,774
Trust Fund Loan (Streets) 2008	2028	4,289,474	-	268,092	4,021,382	268,092
Interfund Loans 2012	2022	9,698,149	-	1,026,593	8,671,556	906,398
LID 358-Internal financing		107,894	-	80,638	27,256	27,256
Compensated Absences		4,091,496	4,257,449	4,020,741	4,328,204	2,714,575
Total General Government		$ 26,609,652	$ 4,257,449	$ 7,854,548	$ 23,012,553	$ 4,636,095
Internal Service Funds:						
Equipment Rental Fund:						
Compensated Absences		$ 47,262	$ 66,223	$ 63,120	$ 50,365	$ 40,681
Central Services Fund:						
Compensated Absences		181,581	182,240	164,055	199,766	138,832
Facilities Fund:						
Energy Conservation Loan 2003	2013	43,892	-	43,892	-	-
Energy Conservation Loan 2004	2014	91,428	-	60,341	31,087	31,087
Compensated Absences		90,931	147,438	125,034	113,335	80,187
Insurance Fund:						
Compensated Absences		48,327	52,216	44,495	56,048	37,083
Total Internal Service Funds		$ 503,421	$ 448,117	$ 500,937	$ 450,601	$ 327,870
Total Governmental Activities Non-Bonded Long-Term Debt		$ 27,113,073	$ 4,705,566	$ 8,355,485	$ 23,463,154	$ 4,963,965
BUSINESS-TYPE ACTIVITIES:						
Proprietary Funds:						
Water Fund:						
Trust Fund Loan 2001	2021	$ 4,750,000	$ -	$ 527,777	$ 4,222,223	$ 527,778
Trust Fund Loan 2002	2022	5,312,500	-	531,250	4,781,250	531,250
Contract Tacoma Pipeline 2002	2032	17,657,632	-	17,657,632	-	-
Contract Tacoma Pipeline 2010	2040	11,400,000	-	260,000	11,140,000	265,000
Contract Tacoma Pipeline Ref 2002	2032	-	14,790,000	175,000	14,615,000	205,000
Compensated Absences		189,618	166,111	173,134	182,595	136,319
Total Water Fund		$ 39,309,750	$14,956,111	$19,324,793	$ 34,941,068	$ 1,665,347
Sewerage Fund:						
Trust Fund Loan 2004	2024	$ 975,000	$ -	$ 150,000	$ 825,000	$ 75,000
Compensated Absences		227,916	240,737	251,920	216,733	171,539
Total Sewerage Fund		$ 1,202,916	$ 240,737	$ 401,920	$ 1,041,733	$ 246,539
Golf Complex Fund:						
Compensated Absences		$ 85,100	$ 28,436	$ 32,370	$ 81,166	$ 46,077
Total Golf Complex Fund		$ 85,100	$ 28,436	$ 32,370	$ 81,166	$ 46,077
Total Business-Type Activities Non-Bonded Long-Term Debt		$ 40,597,766	$15,225,284	$19,759,083	$ 36,063,967	$ 1,957,963
TOTAL NON-BONDED LONG-TERM DEBT		$ 67,710,839	$19,930,850	$28,114,568	$ 59,527,121	$ 6,921,928

The annual debt service requirements to maturity for LID Internal Financing and Contracts, Loans and Notes are as follows:

	LID Internal Financing		Contract, Loans, and Notes				
	Governmental Activities		Governmental Activities		Business-Type Activities		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	$ 27,256	$ 1,227	$ 1,925,351	$ 197,240	$ 1,604,028	$ 1,124,804	$ 4,879,906
2015	-	-	1,916,041	170,498	1,639,028	1,103,561	4,829,128
2016	-	-	1,710,028	143,854	1,519,028	1,080,719	4,453,629
2017	-	-	1,724,227	125,798	1,549,028	1,061,277	4,460,330
2018	-	-	1,738,642	107,525	1,549,028	1,040,435	4,435,630
2019-2023	-	-	7,879,018	256,755	7,593,333	4,760,630	20,489,736
2024-2028	-	-	1,794,873	22,356	8,020,000	3,517,842	13,355,071
2029-2033	-	-	-	-	8,150,000	1,583,858	9,733,858
2024-2038	-	-	-	-	2,725,000	531,607	3,256,607
2039-2043	-	-	-	-	1,235,000	68,141	1,303,141
Total	$ 27,256	$ 1,227	$18,688,180	$ 1,024,026	$ 35,583,473	$15,872,874	$71,197,036

11. FUND EQUITY

Fund Balance

Fund balance presented in the governmental fund financial statements represent the difference between assets plus deferred outflows and liabilities plus deferred inflows reported within the governmental fund. Fund balance is classified into the following categories:

Nonspendable – items that cannot be spent due to form; inventories, prepaid amounts, long-term loan receivables, or amounts that must be maintained intact legally.

Restricted – amounts constrained for specific purposes imposed by external parties.

Committed – amounts constrained by the City Council, either through formal budget adoption, contract approvals or for other purposes formally approved by the Council through ordinance.

Assigned – all amounts remaining in governmental funds, other than the general fund, not classified as nonspendable, restricted or committed. Amounts reported as assigned also include year-end encumbrances that have received approval from the city council and re-appropriated in the following year's carry forward budget.

Unassigned – any remaining fund balance in the general fund not classified as nonspendable, restricted, committed or assigned. The City's financial policies require a target amount of 10 percent fund balance to remain in the general fund for cash flow purposes.

- **Deficit** fund balance is excess of current liabilities and deferred inflows over current assets and deferred outflows. Of the major funds, the Capital Improvement had a deficit fund balances of $7,422,379 as of December 31, 2013. In the non-major funds, the Environmental Mitigation Special Revenue Fund had a deficit fund balance of $25,644 as December 31, 2013.

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

12. INFORMATION ON ENTERPRISE FUNDS

The City has three Enterprise Funds. Information pertaining to each fund is presented below:

a. WATER

The Water Fund collects all revenues for the City's water utility, pays the expenses of the utility, pays amounts as required by bond covenants for debt service and expends certain monies to fund improvements to the system. The water service fees include a flat monthly meter access fee and a water usage fee based on a customer's water consumption. Effective January 1, 2013, both meter access fees and usage fees increased six percent. This follows a three percent increase in fees on January 1, 2012.

Shown below are the new rates effective as of January 1, 2013 compared to 2012 rates:

Meter Access Fee Rates (monthly)

Meter Size	Effective 2012	Effective 2013
3/4" or 5/8"	$ 12.35	$ 13.10
1"	20.98	22.26
1½"	32.03	33.98
2"	42.46	45.04
3"	90.02	95.50
4"	109.08	115.72

Usage Rates 2012

Monthly		Inside City Limits	Outside City Limits
Summer (5/1-9/30)	First 700 cu. ft.	$3.88 per 100 cu. ft.	$4.74 per 100 cu. ft.
	Over 700 cu. ft.	$4.94 per 100 cu. ft.	$5.82 per 100 cu. ft.
Winter (10/1-4/30)	First 700 cu. ft.	$2.94 per 100 cu. ft.	$3.88 per 100 cu. ft.
	Over 700 cu. ft.	$3.98 per 100 cu. ft.	$4.94 per 100 cu. ft.

Usage Rates 2013

Monthly		Inside City Limits	Outside City Limits
Summer (5/1-9/30)	First 700 cu. ft.	$4.11 per 100 cu. ft.	$5.02 per 100 cu. ft.
	Over 700 cu. ft.	$5.24 per 100 cu. ft.	$6.17 per 100 cu. ft.
Winter (10/1-4/30)	First 700 cu. ft.	$3.12 per 100 cu. ft.	$4.11 per 100 cu. ft.
	Over 700 cu. ft.	$4.22 per 100 cu. ft.	$5.24 per 100 cu. ft.

b. SEWERAGE

The Sewerage Fund is a combined fund for Sewer and Drainage operations. The Fund collects all revenues for the utility, pays the expenses of the utility, and expends certain monies to fund sewer and drainage system improvements.

The sewer operation is a collection system which pumps wastes to METRO, a regional treatment agency under King County. All collection districts in King County contract with METRO for sewage treatment. Rate increases for sewer are primarily related to pass through charges from METRO. For fiscal year 2013 the single family residential rates for sewer were a City fee of $17.96 per month and a METRO fee of $39.79 per month for a total monthly fee of $57.75. All other than single family residential customers pay a sewer rate based on their water consumption with a minimum base rate of $57.75 per month.

The drainage operation started in May 1985 and collects revenue to fund operating charges. Effective January 1, 2012, the drainage fee for single family residences increased ten percent from $10.56 to $11.64 per month. The rate for multi-family and commercial establishments varies based on the property size, percentage of impervious surface, and the basin or basins in which the property is located.

The following shows the separation of the Sewerage Fund into its components.

	Amounts shown in thousands		
	Sewer	**Drainage**	**Total**
Operating Revenue	$ 24,698	$ 18,054	$ 42,752
Operating Expenses	26,546	10,359	36,905
Operating Income	$ (1,848)	$ 7,695	$ 5,847

c. **GOLF COMPLEX**

In 1981, the City purchased a golf facility that included a 9-hole executive golf course, a mini-putt facility, and a driving range. An 18-hole golf course was completed in 1989 funded by the issuance of revenue bonds. The revenue bonds were refunded in 1995 with a limited-tax general obligation issue that also included some new money for driving range and mini-putt improvements. On June 1, 1993, the City contracted with a private corporation to operate the City's Golf Complex. Due to the retirement of the key management person of the corporation, the management contract was terminated on December 31, 1999. The City took over all golf operations and continued a contract for merchandising at January 1, 2000. During 2000, the City entered into a separate management contract to operate the 9-hole executive course, mini-putt facility, and the driving range. The same contractor entered into a lease agreement with the City to build and operate a new restaurant at the 18-hole course. In 2010, the restaurant entered into a new lease agreement with a new contractor, Mick Kelly's Irish Pub. In 2001, the golf merchandise contractor closed its store at the complex. The City Council passed the golf merchandising program on November 20, 2001 to be effective December 1, 2001. The City operates the 18-hole course, runs the merchandising operation, and provides all of the maintenance at the complex. The Golf Complex Fund collects all revenues and pays all expenses. The complex had a decrease of net position of $484,927 in 2013, and net position of $4,396,067 at December 31, 2013.

13. PROPERTY TAXES

The County Treasurer acts as an agent in collecting property taxes for all taxing authorities in the County. Taxes are levied annually on January 1, on property value listed as of the prior July 31. They become a lien on the first day of the levy year. Assessed values are established by the County Assessor at 100 percent of fair market value. A reevaluation of all property is required every year and a physical inspection required at least once every six years.

Tax bills are mailed on February 14 and are due on April 30. They may be paid in two equal installments on April 30 and October 31. If not remitted by April 30, the whole amount becomes delinquent with penalties and delinquent interest assessed on that amount. The County Treasurer remits collections to the individual taxing districts daily by electronic funds transfer as amounts are received and allocated to taxing districts. General and Debt Service Funds receivables at December 31, 2013 include $580,652 for delinquent property taxes. No estimate of uncollectible taxes is made since state law allows for sale of property for failure to pay taxes.

The City is permitted by law to levy up to $3.60 per $1,000 of assessed valuation for general government services. This amount is reduced for the following reasons:

a. The Washington State Constitution limits the total statutory property tax levy to $10.00 per $1,000 of assessed valuation. This 1 percent value limit is subject to additional reduction of 10 percent on all regular taxing rates except for Port and Utility Districts, Conservation Futures, Emergency Medical Services and State levies. The effective levy limit is $5.55 per $1,000 assessed valuation as follows: $1.80 for the County, $3.60 for the City and $.15 is a floating limitation where applicable. In addition, the City has given $.50 to the County to fund the library and $1.00 to the Kent Regional Fire Authority.

b. Washington State law in RCW 84.55.010 limits the growth of regular property tax revenue. If total city assessed valuation increases by more than the allowable rate, the levy rate is proportionally decreased.

c. Referendum 47 passed in November 1997 limited the growth of the property tax levy to the lesser of 6% or inflation.

d. Initiative 747 passed in November 2001 further limits property tax levy growth by the lesser of 1% or inflation. As a result of Initiative 747, Washington State law in RCW 84.55.0101 limits the growth of regular property tax revenue to 1%.

e. The City may voluntarily levy taxes below the legal limit.

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

For 2013, the City's regular tax levy was $1.694 per $1,000 of assessed valuation based on the 2012 assessed valuation of $12,009,757,520 for a total regular levy of $20,258,863.

14. PERSONNEL BENEFITS

a. SICK, VACATION AND COMPENSATORY LEAVE

Eligible employees earn twelve days sick leave and twelve to twenty-two days vacation leave per year depending on the employee's length of service and union agreement. Law enforcement officers and firefighters hired on or before September 30, 1977 receive unlimited sick leave. Maximum sick leave accruable for other employees is 130 days. Compensatory leave is time off in lieu of pay, but is due and owing to employees upon termination. Employees leaving the City of Kent are entitled to be paid for all unused vacation and compensatory leave. Upon termination, police officers hired prior to January 1, 2008, who retire or separate in good standing, will be compensated for the hours, up to 1,040 hours, remaining in their sick leave bank based on their tenure as commissioned officers with the Kent Police Department. The compensation is calculated, based on their tenure, at a percentage (between 20 and 80 percent) of the employee’s hourly rate. Compensated absences payable includes the sick leave buy-out for retired and separated police officers as well as vacation and compensatory leave for all employees per GASB Statement No. 16.

There are some sick leave benefits which are not paid to the employees upon termination, but instead are due in January following the year earned. Police officers are eligible to receive compensation for accrued sick leave exceeding 1,040 hours at December 31. The City also pays all eligible employees a sick leave incentive amount based on the number of sick days accrued at year end. The amount paid equates from 8 to 32 hours at base pay.

In the Governmental Activities Statement of Net Position, the current portion of compensated absences plus estimated benefits, including internal services, is estimated to be $3,011,358 and the estimated long term, portion, including internal services is $1,736,360. The liabilities are typically liquidated by the general fund, with exception to those related to internal services. In the Proprietary Funds, the current portion is that amount which is anticipated to be paid within the next fiscal period. The Proprietary Funds fully accrue compensated absences plus estimated benefits thereon, and separate current and long-term portions for balance sheet purposes only. In the Business-type Activities Statement of Net Position, the estimated current amount is $353,935 and the estimated long-term portion is $126,559.

b. **RETIREMENT**

The City's contributions to retirement programs in 2013 were:

To Federal Social Security System	$3,618,512
To State administered employee retirement systems	3,518,546
Total	$7,137,058

Retirement payments to City employees from all City funds in 2013 were:

From Firemen's Relief and Pension Fund	$ 321,149

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 (DRS), under cost sharing multiple employer public employee defined benefit and defined contribution retirement plans. The City of Kent contributes semi-monthly to the Public Employees Retirement System (PERS), the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF), and the Public Safety Employees' Retirement System (PSERS). The State legislature is responsible for establishing and amending plan provisions.

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 from their website www.drs.wa.gov/administration/annualreport/cafr or contact them at:

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

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

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

The State Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; college and university employees not in national higher education retirement programs; judges 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. (As used in this context, "plans" refers to tiers within PERS. The actual plan is PERS.)

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 August 31, 2002 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after September 1, 2002 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 PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 account 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 completion of five years of eligible service. Plan 1 members are eligible for retirement from active service at any age with at least 30 years of service, or at the age of 60 with at least five years of service, or at the age of 55 with at least 25 years of service. The monthly benefit is two 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.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 three 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 two percent of the AFC for each year of service reduced by two 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 a three 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 two 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 three 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 three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible children of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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 five percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a five percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined benefit 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 one 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, 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 five 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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one 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 three 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.

Judicial Benefit Multiplier
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 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 average compensation.

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 2,304 employers participating in one or more PERS plan. 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 Nonvested	44,273
Total	263,347

Funding Policy

The State Legislature has established minimum contribution rates for the PERS plans (Chapter 56, Laws of 2009). All employers are required to contribute at the level established by the Legislature.

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 six percent. 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 rate ranges from five 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 PERS contribution rates are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The City's contribution rates expressed as a percentage of current-year covered payroll, for the year ending December 31, 2013 are as follows:

Members not participating in JBM:

	Plan 1 Required	**Plan 2 Required**	**Plan 3 Required**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****
Total	15.21%	14.13%	9.21%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% 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 4.64% 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:

	Plan 1 Required	Plan 2 Required	Plan 3 Required
Employer*	9.21%	9.21%	9.21%**
Employee	12.26%	12.30%	7.50%***
Total	21.47%	21.51%	16.71%

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 67,506	$2,096,179	$ 464,661
2012	70,265	1,935,045	414,761
2011	83,652	1,731,599	381,649

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

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended 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 the combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate of specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average
20+	2.0%
10 but less than 20	1.5%
5 but less than 10	1.0%

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus five percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children received 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 the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus five 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 an employee completes 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 two 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 three 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 three 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 two 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 three 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 received retirement benefit of at least ten percent of FAS and two percent per year of service beyond five years. The first ten 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 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 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 those options are available to their survivors.

There are 425 employers participating in one or both of the LEOFF plans. 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 non-vested	2,633
Total	27,784

Funding Policy

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

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

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

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

	Plan 1 Required	Plan 2 Required
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.38%
Total	0.18%	17.02%

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

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

	LEOFF Plan 1	LEOFF Plan 2
2013	$ -	$ 697,390
2012	34	672,934
2011	158	671,528

(3) Public Safety Employees' Retirement System (PSERS)

Plan Description

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

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

PSERS Plan 2 membership includes:

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

A *covered employer* is one that participates in PSERS. Covered employers include:

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

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

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

- Have primary responsibility to supervise eligible members who meet the above criteria.

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

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

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

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

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

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

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

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

Retirees and beneficiaries receiving benefits	27
Terminated plan members entitled to, but not receiving, benefits	60
Active plan members vested	2,083
Active plan members non-vested	2,167
Total	4,337

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with

Chapters 41.37 and 41.45 RCW.

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

	Plan 2 Required
Employer*	10.54%
Employee	6.36%
Total	16.90%

*The employer rate includes an employer administrative expense fee of 0.18%.

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

	PSERS Plan 2
2013	$ 160,043
2012	128,920
2011	107,702

(4) Firemen's Relief and Pension System

The Firemen's Relief and Pension system is a single employer defined benefit pension plan. Membership is limited to firefighters employed prior to March 1, 1970. The City's liability under the system is composed of all benefits for firefighters retired prior to March 1, 1970, who are members of the system. The system is a trust fund in the financial reports of the City, and is administered by the Firemen's Relief and Pension Board made up of two members of the system, the Mayor, and a Councilmember. The plan is governed by State statute and does not issue a stand-alone financial report.

The accrual basis of accounting was used to prepare the Firemen's Relief and Pension Fund statements. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

As of December 31, 2013 there were a total of 10 individuals covered by this system and drawing benefits. The City's covered payroll for year ending December 31, 2013 was $124,149. The most recent actuarial study of the system was done by Milliman & Robertson, Inc. to determine the funding requirements as of January 1, 2012. As of that date, the fair value of all plan assets was $3,154,301 and the actuarial present value of future benefits was $2,729,000. The City contributed $155,012 in 2013. The actuary computed the annual required contribution (ARC) using the Entry Age Normal Cost Method. Since nearly all members have already retired, the amount of the annual Normal Cost is small. Other actuary assumptions in the study were a 2.75% inflation rate, a 4.0% investment return, and an annual 3.75% increase in salaries and post retirement benefits. The amortization method used is level dollar of projected payroll over a 30 year closed period beginning January 1, 1999.

GASB Statement No. 27
Annual Pension Cost and Net Pension Obligation

	12/31/11	12/31/12	12/31/13
Annual required contribution (ARC)			
1 Annual normal cost (BOY)	$ 0	$ 0	$ 0
2 Amortization of IAAL (BOY)	(46,150)	(33,607)	(33,607)
3 Interest to EOY [(1)+(2)][1]x(i)[1]	(1,846)	(1,344)	(1,344)
4 ARC at EOY [(1)+(2)+(3)]	$ (47,996)	$ (34,951)	$ (34,951)
5 Interest on NPO	(12,660)	(12,178)	(10,739)
6 Adjustment to ARC	(24,039)	(24,063)	(22,155)
7 Annual pension cost [(4)+(5)-(6)]	$ (36,617)	$ (23,066)	$ (23,535)
8 Employer contributions[2]	(48,662)	(59,033)	(41,988)
9 Change in NPO [(7)-(8)]	$ 12,045	$ 35,967	$ 18,453
10 NPO at BOY [(11) prior year]	(316,496)	(304,451)	(268,404)
11 NPO at EOY [(9)+(10)	$ (304,451)	$ (268,484)	$ (250,031)

[1]'i' is the assumed interest rate that year: 4.0% in 2011, 4.0% in 2012 and 4.0% in 2013.
[2]Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses.

GASB Statement No. 27
Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2011	$ (36,617)	N/A	$ (304,451)
December 31, 2012	(23,066)	N/A	(268,484)
December 31, 2013	(23,535)	N/A	(250,031)

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions*	Fire Insurance Premiums	Total Employer Contributions	Annual Required Contribution ARC	Percentage of ARC Contributed
December 31, 2008	(191,388)	131,845	(59,543)	(46,550)	(127.91)%
December 31, 2009	(194,350)	132,085	(62,265)	(46,550)	(133.76)%
December 31, 2010	(210,727)	146,576	(64,151)	(47,996)	(133.66)%
December 31, 2011	(200,000)	151,338	(48,662)	(47,996)	(101.38)%
December 31, 2012	(204,825)	145,792	(59,033)	(34,951)	(168.90)%
December 31, 2013	(197,000)	155,012	(41,988)	(34,951)	(120.13)%

**Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses.*

The Firemen's Relief and Pension System's investments at December 31, 2013, of $2,867,068 recorded at fair market value, were in the following obligations:

	Market Value
Government Agencies	$ 614,535
State Investment Pool	2,252,533
Total	$ 2,867,068

(5) Retirement Health Care Benefits-LEOFF I Retirement System

During the year ended December 31, 2007, the City adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45), which requires the City to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the City, under GASB No. 45, has recorded a liability of $1,112,245 for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the December 31, 2013 statement of net position. The effect of GASB No. 45 for the current fiscal year was to decrease the City's excess of revenue over expenses and the City's net position for the year ended December 31, 2013 by approximately $109,322.

Plan Description: The City of Kent Health Plan for LEOFF I Retirees (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the City. The Health Plan provides medical, prescription drug, dental, vision, long-term care, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare. The Health Plan does not issue a separate stand-alone financial report.

Funding policy: Retirees are not required to contribute to the Health Plan.

For the fiscal year ended December 31, 2013, the City contributed an estimated $912,889 to the Health Plan to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation: The basis for the City's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, we project will cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the City's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the City's net OPEB obligation to the Health Plan:

	12/31/13
Amortization of unfunded actuarial Accrued liability (UAAL) at transition	$ 803,567
ARC	803,567
Annual OBEB cost (expense)	803,567
Contributions made	(912,889)
Increase in net OPEB obligation	
Net OBEP obligation - beginning of year	(1,002,923)
Net OPEB obligation - end of year	$ (1,112,245)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follow:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Obligation
December 31, 2013	$ 803,567	113.6%	$ 1,112,245
December 31, 2012	803,567	117.7%	1,002,923
December 31, 2011	$ 803,567	108.7%	$ 860,760

Funded Status and Funding Progress: The funded status of the Health Plan as of December 31, 2010, the date of the last actuarial valuation, follows:

(Rounded to thousands)

Actuarial accrued liability (AAL) – Unit Credit	$20,959,291
Actuarial value of plan assets	647,099
Unfunded actuarial accrued liability (UAAL)	20,312,192
Funded ratio (actuarial value of plan assets/AAL)	3.1%

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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, present multi-year trend information that shows whether the actuarial value of Health Plan assets in increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and Assumptions: The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the City and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and members of the Health Plan 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 December 31, 2010 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 0.26% investment rate of return (net of administrative expenses) and an initial healthcare cost trend rate of 10.5% for medical/prescription drug/unreimbursed medical expenses and 7.0% for dental, reduced by decrements to ultimate rates of 6.4% and 4.0% after 10 years and 4 years, respectively. The vision and long-term care trend rates are 4.0% for all years. All trend rates included a 3.0% inflation assumption. Recalculation of the UAAL occurs each year and the amortization is a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010 was 27.0 years.

LIFE INSURANCE

Life insurance is provided for full time employees through Standard Life Insurance Company. Full-time employees are covered immediately. All employees have paid life insurance equal to their annual salary up to $50,000. The City contributed $93,343 during 2013 for this coverage.

DEFERRED COMPENSATION

In 1984 the City established a deferred compensation program for its employees in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all revenue attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) deposited to a trust. The City has no claim to these assets and, as of January 1, 1998, no longer records the fair value of the assets of the deferred compensation program on its books. The City makes no contributions to the plan, but allows its employees to contribute to the International City Managers Association (ICMA) plan.

15. RISK MANAGEMENT

The City maintains consolidated insurance operations in one Insurance Internal Service Fund. The Unemployment, Worker's Compensation, a portion of the Liability and Property, and Medical and Dental Insurance Programs are self insured. This fund is made up of separate sub-funds for Unemployment Compensation, Worker's Compensation, Liability and Property, and Medical and Dental Insurance. There were no significant reductions in insurance coverage and no claims exceeded insurance coverage for the past three years. Following is a table of changes in estimated claims liabilities for 2013 and 2012 as carried in the City's Internal Service Funds:

	Worker's Compensation		Medical and Dental		Liability		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Claims liabilities, 1/1	$ 1,757,476	$ 2,433,563	$ 753,100	$ 863,400	$ 1,972,012	$ 2,171,321	$ 4,482,588	$ 5,468,284
Less: Claims paid	(613,662)	(881,630)	(9,560,152)	(12,886,016)	(634,850)	$ (322,299)	(10,808,664)	(14,089,945)
Plus claims and								
Changes in estimates	1,292,465	205,543	9,477,852	12,775,716	140,868	122,990	10,911,185	13,104,249
Claims Liabilities 12/31	$ 2,436,279	$ 1,757,476	$ 670,800	$ 753,100	$ 1,478,030	$ 1,972,012	$ 4,585,109	$ 4,482,588

a. UNEMPLOYMENT COMPENSATION

The City self-insures its unemployment compensation program through the Washington State Employment Security Department. Reserves are set each year based on estimates of employment activity. The City paid $163,725 in unemployment compensation claims in fiscal year 2013. At December 31, 2013, fund equity was $471,907.

b. WORKER'S COMPENSATION

The City became self-insured for worker's compensation in 1981. Contributions are made from the operating funds based upon actuarially determined costs. The funding and allocations for the worker's compensation program are reviewed by an actuary on an annual basis. The latest actuarial study was made by Fallquist Actuaries, Inc., as of December 31, 2012. The study projected ultimate loss for 2013 of $957,600. At December 31, 2013, incurred but not reported and claims payable were estimated at $2,436,279. At December 31, 2013 fund equity was $702,401. A contingency reserve of $104,319 was set up for a worker's compensation claim. The City carries excess workers' compensation insurance coverage with a private carrier for losses exceeding $500,000 per occurrence to a maximum indemnity in accordance with statutory limits.

c. LIABILITY

Liability coverage consists of a self-insurance layer of $250,000 combined with two layers of reinsurance, a $5 million primary layer and a $15 million secondary layer for a total of $20 million. The reinsurance layers are through the Washington Public Entity Group (WAPEG), a risk purchase group organized through the City's broker, Alliant Insurance Services, Inc. Coverage is occurrence based and includes general, automobile, police, public officials' errors and omissions, employment practices, stop gap, and employee benefits liability. Loss reserves are maintained by the City on the basis of annual actuarial studies.

The City purchases additional insurance coverage for smaller risks not covered by the programs listed above. Those coverages include crime/fidelity, Neighborhood Association liability, and international liability, as well a public official bonds.

At December 31, 2013, the City booked a liability for open and incurred but not reported claims to equal estimated outstanding claims liability of $1,478,030. The fund had sufficient equity to cover projected losses over the amount booked at December 31, 2013.

At December 31, 2013, fund equity was $3,503,131 in its liability fund. In 2013, the City expensed $1,030,374 for its liability claims and insurance coverage.

d. **PROPERTY**

Property coverage is provided by Lexington for all risks including earthquake and flood for buildings, contents, business income, extra expense, mobile equipment, fine arts and vehicles. Deductibles are $100,000 per occurrence.

At December 31, 2013 fund equity was $176,961. In 2013, the City expensed $526,864 for its property claims and insurance coverage.

e. **MEDICAL AND DENTAL**

The City is self insured for three medical plans administered by Premera Blue Cross, two dental plans administered by Washington Dental Service (WDS), and a vision plan administered by Vision Service Plan (VSP). Claims exceeding $175,000 per occurrence are covered by a stop loss policy. Group Health is offered as a Health Maintenance Organization (HMO) additional plan. The 100% Preferred Provider plan provides comprehensive benefits with co-pays, the 80/20 Preferred Provider plan is a deductible plan with co-insurance, and the Health Savings Account (HSA) plan is a high deductible plan with a HSA attached. The two dental plans offered are both Preferred Provider Plans with different maximums depending on the plan enrolled. In 2013, Premera Blue Cross covered approximately 95 percent of the employees for a cost of $8,163,158. The City authorizes an actuarial study every year to determine the fund's actuarial soundness and the impact on future rates. The most recent study was completed as of December 31, 2013. The City's incurred but not reported claims liabilities decreased from $805,800 as of December 31, 2012 to $705,200 as of December 31, 2013. These amounts include the estimated IBNR for LEOFF1 Retirees of $52,700 as of December 31, 2012 and $57,600 as of December 31, 2013.

Group Health Cooperative provided health care to approximately five percent of the employees for 2013 premiums of $426,597.

The fund's net position increased by $1,170,126 to $7,220,438 at December 31, 2013. In 2013, the City's contribution rate was sufficient to provide reserves as recommended by the actuary.

e. **FINANCIAL HIGHLIGHTS**

The 2013 financial highlights for the individual insurance operations are shown below:

	Unemployment Compensation	Worker's Compensation	Medical and Dental	Liability	Property	Total
BALANCE SHEET						
ASSETS						
Cash and residual investments	$ 99,467	$ 123,666	$ 923,908	$ 150,338	$ (84,456)	$ 1,212,923
Other investments	410,000	3,019,874	4,240,000	4,835,000	-	12,504,874
Receivables:						
Accounts	-	-	368,652	-	-	368,652
Notes	-	-	2,683,291	-	-	2,683,291
Accrued interest	-	51	-	-	-	51
Prepaid expenses	-	13,388	3,823	31,731	263,328	312,270
TOTAL ASSETS	$ 509,467	$ 3,156,979	$8,219,674	$5,017,069	$ 178,872	$17,082,061

	Unemployment Compensation	Worker's Compensation	Medical and Dental	Liability	Property	Total
LIABILITIES						
Current:						
Vouchers Payable	$ -	$ 312	$ 275,355	$ 27,412	$ -	$ 303,079
Accrued expenses	35,786	2,447,168	686,355	1,478,650	137	4,648,096
Compensated absences - current	1,153	4,611	25,050	5,116	1,153	37,083
Long-term:						
Compensated absences	621	2,487	12,476	2,760	621	18,965
TOTAL LIABILITIES	37,560	2,454,578	999,236	1,513,938	1,911	5,007,223
NET POSITION	471,907	702,401	7,220,438	3,503,131	176,961	12,074,838
TOTAL LIABILITIES & NET POSITION	$ 509,467	$ 3,156,979	$8,219,674	$5,017,069	$ 178,872	$17,082,061
INCOME STATEMENT						
OPERATING REVENUES	$ 378,004	$ 1,504,861	$10,951,450	$2,340,300	$ 562,455	$15,737,070
OPERATING EXPENSES	186,813	1,499,879	9,832,520	1,030,374	526,864	13,076,450
OPERATING INCOME	191,191	4,982	1,118,930	1,309,926	35,591	2,660,620
NON-OPERATING REVENUES (EXPENSES)	483	3,704	51,245	6,118	53	61,603
TRANSFERS IN/(OUT)	-	(31)	(49)	-	-	(80)
NET INCOME	191,674	8,655	1,170,126	1,316,044	35,644	2,722,143
NET POSITION 1/1	280,233	693,746	6,050,312	2,187,087	141,317	9,352,695
NET POSITION 12/31	$ 471,907	$ 702,401	$7,220,438	$3,503,131	$ 176,961	$12,074,838

16. JOINT VENTURE

The "Valley Communications Center" (Valley Com) was established August 20, 1976, by an Interlocal Agreement between the cities of Renton, Kent, Auburn, and Tukwila. The agreement is sanctioned by the provisions and terms of the Interlocal Corporation Act pursuant to R.C.W. 39.34. The initial duration of the agreement was five years, and thereafter is automatically extended for consecutive two year periods, unless terminated by one or more of the participating cities. Any such termination must be in writing and served upon the other cities on or before July 1 in any one year, and become effective on the last day of that year.

On August 4, 1999, the Administration Board of Valley Communications Center voted to include the City of Federal Way as a full participating Member City as of January 1, 2000. A new Interlocal Agreement pursuant to State RCW 39.34, et seq., was entered into by the five participating municipal corporations that include the cities of Auburn, Federal Way, Kent, Renton, and Tukwila on April 17, 2000. The duration of the agreement is five years, and will be automatically extended for additional five (5) year periods unless terminated as provided. However, the agreement shall not be terminated until all bonds issued by Valley Communications Center Development Authority have been defeased.

During 2000, the Valley Communications Center Development Authority was created to issue $12,758,000 in General Obligation Bonds to finance construction, equipment, and land for a new facility opened in 2002. Each of the five participating cities is responsible for one-fifth of the debt obligation, which came to $2,551,600. On March 5, 2010, Valley Communications refunded the bonds in the amount of $5,325,000 to mature in 2015 like the original issue. With the 2010 refunding, the City reduced its portion of the 2000 bond debt by $4,000. The five participating cities pay the debt service costs through Valley Communications Development Authority. In 2013, Valley Com contributed $10,120 of the payment owed by the City which left a balance of $204,880 that the City paid. The new balance of the City of Kent's obligation was $432,000 at December 31, 2013.

The purpose of the joint operation is to provide improved consolidated emergency communications (dispatch) services for police, fire, and medical aid, to the five participating cities and to the several subscribing agencies, which include King County Fire Districts #2, #20, #39, #40, #43, #44, #47; Kent Regional Fire Authority (RFA), City of Pacific Police and Fire Departments; City of Algona Police Department; City of Des Moines Police Department, City of Black Diamond Police and Fire Departments, SeaTac Fire Department, North Highline Fire Department, Vashon Island Fire Department, and King County

EMS Units. Separate agreements between Valley Com and the subscribing agencies have been executed, which set forth conditions of services and rates charged.

Valley Com is governed by an Administration Board composed of the Mayors or designated representatives from the five participating cities. The Administration Board is responsible for appointment and discharge of the Director and for review and approval of budgets, contracts, and major policy issues including personnel policies.

Reporting to the Administrative Board is an Operating Board which consists of two members of each participating city's Public Safety Departments including the Directors of said departments or designees. The Operating Board oversees the operation of Valley Com, and advises and makes recommendations to the Administration Board. In addition, they make recommendations on Director selection, present proposed policies and budgets to the Administrative Board and approve disbursement of funds by the Director.

The Director presents a proposed budget to the Operating Board on or before August 15 of each year. Said budget is then presented to the Administration Board by September 1 of each year. The Administration Board can make changes to the proposed budget, but final approval falls to the legislative body of each participating city in accordance with the provisions of the Interlocal Agreement.

The Interlocal Agreement calls for allocation of prorated financial participation among the five participating cities based on the percentage of estimated dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls for the current year ended December 31. Percentages are applied to the current approved budget, less revenue from all other sources.

In 2013 the cost distribution for the five participating cities was as follows:

City	Dispatchable Calls	Percent of Total
Kent	97,579	27.76%
Renton	72,740	20.70%
Auburn	71,881	20.45%
Tukwila	34,192	9.73%
Federal Way	75,073	21.36%
Totals	351,464	100.00%

In August 1993, Valley Com entered into an Interlocal Cooperation Agreement, Pursuant to Chapter 39.34 RCW, with the sub regions of King County, Seattle and Eastside Public Safety Communications Agencies (EPSCA). This agreement governs the development, acquisition and installation of the 800 MHz emergency radio communications system (System) funded by the $57 million King County levy approved in November 1992.

This agreement provides that upon voluntary termination of any sub region's participation in the System, it surrenders its radio frequencies, relinquishes its equipment and transfers any unexpended levy proceeds and associated equipment replacement reserves to another sub region or consortium of sub regions.

Thus, in accordance with this Agreement, the principals of Valley Com have no equity interest in Valley Com's 800 MHz communications system.

The share of equity belonging to the five participating cities is as follows:

	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Percent of Equity	30.73%	21.82%	20.65%	12.19%	14.61%	100.00%
Equity 1/1/13	$ 7,139,778	$ 5,062,434	$ 4,783,577	$2,843,407	$ 3,324,584	$ 23,153,780
Current Yr Increase	239,013	178,173	176,069	83,751	183,886	860,892
Equity 12/31/13	$ 7,378,791	$ 5,240,607	$ 4,959,646	$2,927,158	$ 3,508,470	$ 24,014,672

Liabilities are the responsibility of the five participating cities in direct proportion to their equity position.

A copy of Valley Communication Center's audited financial statements is available at their offices located at 27519-108th Avenue SE, Kent, WA 98030.

17. COMPONENT UNITS

City of Kent Special Events Center Public Facilities District

The City of Kent established the Kent Special Events Center Public Facilities District (PFD) in August 2007. The corporation was established pursuant to State legislation and codified under RCW 35.57, with the powers and authority set forth by law. The District is established for the sole purpose of pursuing the design, construction, ownership, operation and/or financing of a regional center comprised of a Special Events Center, individually or in cooperation with any other governmental and/or private entities as allowed by law.

On February 29, 2008, the PFD issued bonds in the amount of $63,280,000. For the fiscal year ended December 31, 2013, the PFD generated $3,819,136 in revenue and had net position of $(60,100,035).

Per GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 61, the City has chosen to include this entity in the City's financial statements utilizing the discreet presentation method. A copy of the City of Kent's Special Events Center Public Facilities District's financial statements is available at the City of Kent located at 220 – 4th Avenue South, Kent, WA 98032.

18. CONTINGENT LIABILITIES

Per the City Attorney, there is no litigation currently pending which, if settled unfavorably to the City of Kent, would materially affect the City's financial position.

19. COMMITMENTS

As of December 31, 2013, the City had the following budgeted commitments for uncompleted projects:

Street Capital Projects	$ 18,307,555
Parks Capital Projects	3,241,045
Miscellaneous Projects	5,293,926
Technology Capital Projects	652,339
Facilities Fund Capital Projects	1,190,546
Facilities Fund	862,692
Water Capital Projects	17,328,615
Sewerage Capital Projects	30,264,113
Total	$ 77,140,831

20. PRIOR PERIOD ADJUSTMENT

With the implementation of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, certain items related to bonded debt are required to be treated differently than in the past. The Statement requires that the accounting changes adopted to conform to the provisions of the statement be applied retroactively, either by restating financial statements for all period presented, or by reporting a restatement of beginning net position or fund balance. The transactions to implement GASB Statement No. 65 and also correct other issues with previous deferred bond costs have been reported as a prior period adjustment to beginning net position in the proprietary fund and government-wide financial statements:

Additionally, the City corrected errors in prior year financial reports to correct certain internal charges between the Equipment Rental Fund (Internal Service) and the Golf Complex Fund, to write off debt to King County, and to correct prior years' depreciation expense on certain capital assets.

	Proprietary Funds	Governmental Activities
Write off of bond issuance costs previously capitalized and other adjustments to deferred bond costs	$ 11,188	$ (437,080)
Correct previous years' charges from the Equipment Rental Fund to the Golf Complex Fund	26,030	(26,030)
Write off King County debt		1,810,709
Correction to prior depreciation expense		(13,492,112)
Total	$ 37,218	$ (12,144,513)

21. SUBSEQUENT EVENTS

On April 9, 2014 the City issued $12,230,000 in General Obligation Refunding Bonds for the purpose of refunding the outstanding balance of the 2004 General Obligation Refunding Bonds ($12,595,000). The proceeds of the 2014 bonds were placed into an irrevocable trust fund and invested in state and local government securities. On June 1, 2014 the 2004 General Obligation Refunding Bonds were called.

On February 21, 2014, the City received an upgrade on the General Obligation Bonds from A+ to AA-from Standard & Poor's Rating Service. Also on February 6, 2014 Moody's Rating Service reaffirmed their Baa2 rating on the General Obligation Bonds, but upgraded the rating outlook to "stable".

RETIREMENT HEALTH CARE BENEFITS -- LEOFF 1 RETIREMENT SYSTEM
Schedule of Funding Progress
As of December 31, 2010 *

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
December 31, 2007	$ 251,263	$ 8,609,653	$ 8,358,390	2.9%	$ 113,000	7397%
December 31, 2008	607,604	8,609,653	8,002,049	7.1%	123,981	6454%
December 31, 2009	734,159	8,609,653	7,875,494	8.5%	124,404	6331%
December 31, 2010	647,099	20,959,291	20,312,192	3.1%	119,207	17039%

* Most recent actuarial study

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Jan. 1, 2000	$ 3,295	$ 2,169	$ (1,126)	152%	$ 153	(736)%
Jan. 1, 2002	3,644	1,999	(1,645)	182%	160	(1,028)%
Jan. 1, 2004	3,661	2,380	(1,281)	154%	184	(696)%
Jan. 1, 2006	3,522	2,507	(1,015)	140%	90	(1,128)%
Jan. 1, 2008	3,455	2,859	(596)	121%	99	(602)%
Jan. 1, 2010	3,260	2,630	(630)	124%		N/A
Jan. 1, 2012	3,154	2,729	(425)	116%	-	N/A

FIREMEN'S RELIEF AND PENSION SYSTEM
Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions*	Fire Insurance Premiums	Total Employer Contributions*	Annual Required Contribution ARC	Percentage of ARC Contributed
Dec 31, 2008	(191,388)	131,845	(59,543)	(46,550)	N/A
Dec 31, 2009	(187,000)	132,085	(54,915)	(46,550)	N/A
Dec 31, 2010	(210,727)	146,576	(64,151)	(47,996)	N/A
Dec 31, 2011	(200,000)	151,338	(48,662)	(47,996)	N/A
Dec 31, 2012	(204,825)	145,792	(59,033)	(34,951)	N/A
Dec 31, 2013	(197,000)	155,012	(41,988)	(34,951)	N/A

* Employer contributions for pensions are total contributions to the Fund less disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses

MCAG NO. 0401 | SCHEDULE 16

CITY OF KENT, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. No.	Expenditures From Pass-Through Awards	Expenditures From Direct Awards	Total	Note Ref
Department of Agriculture - Forest Service							
Pass-through WA Dept of Natural Resources	Cooperative Forestry Assistance	10.664	NA	9,815		9,815	2
Department of Education							
Pass-through WA Alliance for Better Schools	Twenty-First Century Community Learning Centers	84.287	NA	1,736		1,736	2
Department of Health & Human Services Substance							
Abuse & Mental Health Services Administration	Drug-Free Communities Support Program Grants	93.276	NA		49,579	49,579	2
	Substance Abuse & Mental Health Services_Projects of Regional Significance	93.243	NA		791	791	2
	Total Department of Health & Human Services			-	50,370	50,370	
Department of Housing and Urban Development Office							
of Community Planning and Development	Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-53-0017		17,918	17,918	2, 3
		14.218	B-12-MC-53-0017		181,610	181,610	2, 3
		14.218	B-13-MC-53-0017		607,911	607,911	2, 3
	Total CFDA #14.28 and Department of Housing and Urban Development			-	807,439	807,439	
Department of Homeland Security							
Pass-through via US Coast Guard/WA Parks	Boating Safety Financial Assistance	97.012	NA	13,626		13,626	2
Pass through WA State Emergency Management	Emergency Management Performance Grants	97.042	NA	104,417		104,417	2, 3
	Total Department of Homeland Security			118,043	-	118,043	
Department of Justice/ Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	AP#03018548		10,437	10,437	2
	State Criminal Alien Assistance Program	16.606	2012-2013		4,565	4,565	2
	Edward Byrne Memeorial Justice Assistance Grant Program	16.738	NA		2,904	2,904	2
Pass through Seattle Police Department	Edward Byrne Memeorial Justice Assistance Grant Program	16.738	NA	34,051		34,051	2
	ARRA-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	NA	25,323		25,323	2, 4
	Total JAG Program cluster			59,374	2,904	62,278	
	Total Department of Justice			59,374	17,906	77,280	
Department of Transportation/Federal Highway Administration (FHWA) Pass through							
WA Freight Mobility Strategic Investment Board	Highway Planning and Construction	20.205	AC-HPP-0615(007)	144		144	2
	Highway Planning and Construction	20.205	AC-HPP-0615(006)	177		177	2
	Highway Planning and Construction	20.205	STPD-1216(004)	3,183		3,183	2
WA Department of Transportation	Highway Planning and Construction	20.205	HSIP-0515(014)	27,317		27,317	2
	Total CFDA #20.205			30,821	-	30,821	
National Highway Traffic Safety Administration (NHTSA)							
Pass through WA Department of Transportation	State and Community Highway Safety	20.600	HLP-BP11(001)	31,320		31,320	2
	Total Department of Transportation			62,141	-	62,141	
National Endowment for the Arts							
Pass through Artworks.gov	Promotion of the Arts_Grants to Organizations and Individuals	45.024	NA	10,000		10,000	2
Pass through Western States Arts Foundation	Promotion of the Arts_Partnership Agreements	45.025	NA	9,000		9,000	2
	Total National Endowment for the Arts			19,000	-	19,000	
	TOTAL FEDERAL AWARDS EXPENDED			270,109	875,715	1,145,824	

The Accompanying Notes to the Schedule of Financial Assistance are an Integral Part of this Schedule

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND TO THE SCHEDULE OF STATE AND LOCAL FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis of accounting. Modified accrual for governmental funds means revenues are recognized when they are measurable and available as net current assets and expenditures are recogized in the accounting period in which the related fund liability is incurred.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for the Community Development Block Grants program is $180,093 that was passed through to a subrecipient that aministered its own project.

Included in the total amount expended for the Emergency Management Performance Grants program is $104,417 that was passed through to a subrecipient that aministered its own project.

NOTE 4 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

Corrective Action Plan for Findings Reported Under OMB Circular A-133

City of Kent
King County
January 1, 2013 through December 31, 2013

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

<table>
<tr><td>Finding ref number:
1</td><td>Finding caption:
The City’s internal controls were not adequate to ensure compliance with Community Development Block Grant Federal Funding Accountability and Transparency Act of 2006 (FFATA) reporting requirements.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
Dan Leahy, City of Kent Accounting Manager
City of Kent
220 Fourth Avenue S.
Kent, WA 98032</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
Consistent with prior years, management is committed to ensuring the City has policies and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. Accordingly, upon learning of this concern, the City implemented the following corrective action plan:

1. The department administering this award:

• The Department worked with HUD and the FSRS technical assistance team and on September 25, 2014 was able to create this report on the FSRS reporting website.

• The Department will develop an annual checklist for all required HUD CDBG reporting to be maintained in the administrative file and reviewed monthly for compliance.

• Departmental personnel responsible for the administration of this program will attend additional CDBG training as provided by HUD. Additionally the division Manager will train staff about the reporting requirements.

2. The City will develop a checklist for federal grants of common reporting requirements for use by all departments.

3. This topic will be communicated at an upcoming Mayor’s Leadership Team meeting. The</td></tr>
</table>

Mayor's Leadership Team is comprised of the Mayor, the Chief Administrative Officer and all department directors.

The City will have the Corrective Action Plan fully implemented by December 31, 2014. Historically, the City has implemented corrective action plans associated with most federal and non-federal audit issues prior to issuance of the audit report. The City did not have an opportunity to do so this year largely because the State Auditor's Office did not commence the audit until late July 2014. In addition, the City was not notified about this concern until September 19, 2014.

Anticipated date to complete the corrective action: December 31, 2014

Finding ref number:	**Finding caption:**
2	The City did not have internal controls in place to ensure compliance with Federal subrecipient monitoring requirements.

Name, address, and telephone of auditee contact person:
Dan Leahy, City of Kent Accounting Manager
City of Kent
220 Fourth Avenue S.
Kent, WA 98032

Corrective action the auditee plans to take in response to the finding:
Consistent with prior years, management is committed to ensuring the City has policies and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. The City has very comprehensive and effective administrative controls governing subrecipient monitoring activities for its other federal awards, including Community Development Block Grant (CFDA 14.218).

Upon learning of this concern, the City established the framework for the following Corrective Action Plan:

4. *The EMPG award was fully expended by the end of 2013. The City will work with the Kent Fire Department Regional Fire Authority in development and execution of a standardized federal sub-award contract, incorporating key provisions governing the administration of federal programs. This contract will be executed for each and every Federal pass-through award received by the City and provided to the Kent Fire Department RFA. The contract will include significant sub-award monitoring provisions, including, but not limited to the following:*

    - *The Kent Fire Department RFA will have an OMB Circular A-133 audit performed for any year in which $500,000 or more in federal financial assistance is expended, and will provide a copy of this report and Management Letter, if any, to the City.*

    - *The Kent Fire Department RFA will provide to the City a copy of any reports regarding any monitoring visits performed by other agencies.*

    The agreement will likely appropriately not include the typical provision requiring on-site inspections by City staff because all of the individuals with the prerequisite understanding of the federal requirements governing these programs are employees of

the Kent Fire Department RFA and the grantor agency. 5. *Appropriate City personnel will meet with Kent Fire Department RFA personnel to communicate mutual rights and responsibilities with respect to the administration of federal pass-through awards provided by the RFA.* 6. *The City of Kent Finance Department will implement appropriate policies and procedures designed to ensure that the afore noted contracts are executed, and that the Kent RFA audit reports and monitoring reports are timely provided to the City, and ensuring corrective actions are taken, in accordance with OMB Circular A-133 requirements.* *The City will have the Corrective Action Plan fully implemented by December 31, 2014. Historically, the City has implemented corrective action plans associated with most federal and non-federal audit issues prior to issuance of the audit report. The City did not have an opportunity to do so this year largely because the State Auditor's Office did not commence the audit late July 2014.*
Anticipated date to complete the corrective action: December 31, 2014

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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