



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Kirkland

King County

For the period January 1, 2014 through December 31, 2014

Published August 31, 2015

Report No. 1014972





Washington State Auditor's Office

August 31, 2015

Mayor and City Council
City of Kirkland
Kirkland, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**City of Kirkland
King County
January 1, 2014 through December 31, 2014**

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

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

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

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

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

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

**City of Kirkland
King County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Kirkland
Kirkland, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kirkland, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated June 26, 2015.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Kirkland
King County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Kirkland
Kirkland, Washington

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

We have audited the compliance of the City of Kirkland, 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, 2014. 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, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kirkland King County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Kirkland
Kirkland, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kirkland, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kirkland, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Excise Tax Capital Improvement funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 34, information on postemployment benefits other than pensions on page 102 and pension trust fund information on pages 102 through 104 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 26, 2015

FINANCIAL SECTION

**City of Kirkland
King County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
General Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
Excise Tax Capital Improvement Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Trust and Agency Funds – 2014

Statement of Changes in Fiduciary Net Position – Firefighter's Pension Funds – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Firefighter's Pension Plan – Schedule of Funding Progress – 2014

LEOFF 1 Retiree Medical and Long Term Care Benefits – Schedule of Funding Progress
– 2014

Firefighter's Pension Plan – Changes in Net Liability – 2014

Firefighter's Pension Plan – Net Pension Liability and Related Ratios – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kirkland, we offer readers of the City of Kirkland's financial statements this narrative overview and analysis of the financial activities of the City of Kirkland for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with the additional information provided in the preceding letter of transmittal.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kirkland exceeded its liabilities at the close of the most recent fiscal year by \$1.102 billion. Of this amount, \$943.1 million is invested in capital assets such as streets, land, and buildings. The remainder is primarily cash and investments, consisting of \$39.5 million that is restricted by legislation or bond covenants for tourism, parks and recreation, transportation, capital projects, and debt service and \$119.2 million that is unrestricted net position and therefore available to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$39.4 million in 2014. The increase in Business-type activities was \$13.6 million, while the Governmental activities increased by \$25.8 million.
- At the end of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$86.9 million, an increase of \$4.8 million compared to the prior year. Over \$35 million of the total fund balance is restricted for use based on bond covenants or enabling legislation. Another \$4.2 million has been committed for specific purposes by the City Council, and another \$29.6 million has been designated by the City Manager for assigned activities. Almost \$18 million remains unassigned because no limitation of use has been formalized.
- Total outstanding debt, including Public Works trust fund loans, at year-end was \$43.3 million.

Overview of the Financial Statements

This section of management's discussion and analysis is intended to introduce and explain the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, other supplementary information is also contained in this report.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for *governmental activities* and *business-type activities*. Governmental activities of the City include general government (legislative, executive, finance, legal services, information technology, facilities maintenance, health benefits, fleet services, city clerk, and human resources), public safety (police and fire), judicial, physical environment, economic environment, transportation, human services, and

culture and recreation. The City's business-type activities are limited to water/sewer, surface water, and solid waste utilities. Governmental activities are primarily supported by taxes, charges for services, and grants, while business-type activities are self-supporting through user fees and charges.

The **statement of net position** presents information on all of the City of Kirkland's assets, liabilities, and deferred inflows/outflows of resources, highlighting the difference between the two as *net position*. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of the city's overall financial health.

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activities on this statement are reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses, even though no cash has changed hands.

The government-wide financial statements can be found immediately following this section (i.e. Management's Discussion and Analysis) of the annual financial 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. Funds are often set up in accordance with special regulations, restrictions, or limitations. The City of Kirkland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The annual financial report includes individual fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type. All of the City of Kirkland's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for those functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, the 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 the City's near-term financing requirements and immediate fiscal health.

Comparing the governmental fund financial statements with similar information presented for *governmental activities* in the government-wide financial statements can help the reader better understand the long-term impact of the City's near-term financing decisions. To assist in this comparison, reconciliations between the governmental fund financial statements and the government-wide financial statements are included with the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances*.

The City of Kirkland maintains eleven individual governmental funds. The City's four major governmental funds—the general fund, the excise tax capital improvement fund, the general capital projects fund, and the transportation capital projects fund—are presented separately in the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances* in the Basic Financial Statements section of this report. The remaining governmental funds are combined into a single column labeled *non-major governmental funds*. Individual fund data for each of the other governmental funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

The City maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level, on a cash basis, and according to state law. Two funds are required to be tracked separately by State Statute, Street and Contingency Funds, but are consolidated for financial reporting. They are budgeted at the fund level to capture the activity as required. Budgetary comparison statements are presented for the general and excise tax improvement fund in the Basic Financial Statements section of this report. Budgetary comparison schedules for the other budgeted funds are included in the Fund Financial Statements and Schedules section of this report.

Two types of **proprietary funds** are used by the City: *enterprise funds* and *internal service funds*. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water/sewer utility, surface water utility, and solid waste utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management of information systems, self insured health benefits, and maintenance of City facilities. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the *governmental activities* column of the government-wide statement of net position.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City's water/sewer utility, surface water utility, and solid waste utility are presented in separate columns in the proprietary fund financial statements; whereas the internal service funds are combined into a single column. The proprietary fund financial statements are included in the Basic Financial Statements section of this report. Individual fund data for the internal service funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

Fiduciary funds are used to account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has only one fiduciary fund, which is the firefighter's pension fund. It is presented in the Basic Financial Statements section 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 in the government-wide and fund financial statements. The notes are located in the Basic Financial Statements section of this report immediately following the fiduciary fund financial statements.

Other Information

The combining statements for other governmental funds and internal service funds are presented immediately following the notes to the financial statements.

Government - Wide Financial Analysis

Statement of Net Position

The statement of net position can serve as a useful indicator of the city's financial position. The City of Kirkland's assets and deferred outflows of resources exceeded liabilities and inflows of resources by \$1,101,829,271 at December 31, 2014. Following is a condensed version of the government-wide statement of net position (expressed in millions of dollars) comparing fiscal year 2014 to 2013.

City of Kirkland's Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$127.03	\$119.85	\$56.48	\$51.09	\$183.51	\$170.94
Capital assets, net of accumulated depreciation	830.14	813.93	152.67	144.71	982.81	958.64
Total assets	957.17	933.78	209.15	195.80	1,166.32	1,129.58
Total deferred outflows of resources	0.32	0.34	-	-	0.32	0.34
Long-term liabilities	44.16	45.65	1.38	1.46	45.54	47.11
Other liabilities	13.17	14.20	5.96	6.12	19.13	20.32
Total liabilities	57.33	59.85	7.34	7.58	64.67	67.43
Total deferred inflows of resources	0.14	0.16	-	-	0.14	0.16
Net position:						
Net investment in capital assets	792.03	777.12	151.09	142.46	943.12	919.58
Restricted	39.55	33.72	-	0.48	39.55	34.20
Unrestricted	68.44	63.27	50.72	45.27	119.16	108.54
Total net position	\$900.02	\$874.11	\$201.81	\$188.21	\$1,101.83	\$1,062.32

As of the end of 2014, the largest component of the City's total assets at \$943.1 million, or 86 percent, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer and surface water infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens.

Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities.

Almost \$40 million of the City's net position is subject to restrictions. The largest balance of restricted funds are for capital improvements. A total of \$12.4 million is a combination of funding within two Capital Projects funds and Excise Tax funds for a variety of capital projects for all functions of the government. The \$10.8 million restriction for transportation includes \$6 million in dedicated Real Estate Excise taxes and just under \$4 million of impact fees.

The restricted Public Safety funds of \$5.9 million are \$2.8 million less than in 2013. The City finished construction of a new Public Safety Building and the remaining balance is for a consolidated fire station project yet to be started.

The \$3.5 million restriction for the general government is the City's Contingency Fund that is required by Washington State Statute but is consolidated for annual reporting and customer deposits. Additionally, restricted assets include \$6.2 million for park impact fees and levy funds, \$0.3 million in bond funds and \$0.3 million in lodging taxes reserved for tourism related activities.

The remaining \$119 million balance of net position is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$50.7 million pertains to the City's business-type activities, which may only be spent on water/sewer, surface water, and solid waste utility activities. Examples of such activities include maintenance of utility delivery systems (water lines, pump stations, and reservoirs), storm drain flushing, water meter reading, and utility capital construction projects. The \$68.4 million balance in unrestricted net position relates to governmental activities much of which is reserved by city policy for vehicle and computer replacement, facilities improvements, health benefits and funding a wide variety of contingencies, such as unforeseen expenditures and revenue shortfalls.

At the end of the fiscal year, the City of Kirkland reported positive balances in all three categories of net position for the government as a whole as well as for the separate governmental and business-type activities. The same was true for the prior fiscal year.

Changes in Net Position

The changes in net position table on the following page illustrates the increases or decreases in net position of the City resulting from operating activities. Overall, the City of Kirkland's net position increased about \$39.4 million in 2014. Most key general revenues reflect increases with the exception of utility taxes. These increases, in conjunction with the recognition of over \$1 million in investment earnings enhanced the total net position. Over \$12.7 million in capital grants and contributions related to transportation activities was received during the year, of this amount \$7.3 million was related to developer contributions to City infrastructure. Business activities recognized a \$13.6 million increase to Net Position. A breakdown of the 2014 increase in Net Position by governmental and business-type activities follows along with graphs that illustrate revenues by source and compare program expenses to program revenues on the next several pages.

City of Kirkland's Changes in Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$24.72	\$22.46	\$51.36	\$50.43	\$76.08	\$72.89
Operating grants and contributions	2.10	2.01	0.42	0.28	2.52	2.29
Capital grants and contributions	12.79	6.52	8.29	3.29	21.08	9.81
General revenues:						
Sales taxes	23.97	22.78	-	-	23.97	22.78
Property taxes	27.18	26.62	-	-	27.18	26.62
Utility taxes	14.89	15.06	-	-	14.89	15.06
Excise taxes	7.27	6.90	-	-	7.27	6.90
Business Taxes	2.49	2.48	-	-	2.49	2.48
Other taxes	2.32	2.19	-	-	2.32	2.19
Investment earnings	1.08	0.05	0.39	0.06	1.47	0.11
Miscellaneous*	0.23	0.22	-	-	0.23	0.22
Total revenues	119.05	107.29	60.46	54.06	179.51	161.35
Expenses:						
General government	5.92	5.60	-	-	5.92	5.60
Judicial	2.33	2.25	-	-	2.33	2.25
Security of Persons and Property	46.50	44.50	-	-	46.50	44.50
Physical environment	1.53	1.32	-	-	1.53	1.32
Transportation	16.79	17.06	-	-	16.79	17.06
Human services	1.40	1.33	-	-	1.40	1.33
Economic environment	7.42	6.35	-	-	7.42	6.35
Culture and recreation	9.90	9.15	-	-	9.90	9.15
Interest on long-term debt	1.98	2.13	-	-	1.98	2.13
Water/sewer	-	-	23.53	23.68	23.53	23.68
Surface water	-	-	7.06	6.83	7.06	6.83
Solid waste	-	-	15.73	16.00	15.73	16.00
Total expenses	93.77	89.69	46.32	46.51	140.09	136.20
Increase (decrease) in net position before transfers	25.28	17.60	14.14	7.55	39.42	25.15
Transfers	0.54	0.59	(0.54)	(0.59)	0.00	0.00
Increase (decrease) in net position	25.82	18.19	13.60	6.96	39.42	25.15
Net position at beginning of year	874.11	859.85	188.21	181.25	1062.32	1041.10
Prior period adjustment (Note 16)	0.09	(3.93)	-	-	0.09	(3.93)
Net position at end of year	\$900.02	\$874.11	\$201.81	\$188.21	\$1,101.83	\$1,062.32

* Miscellaneous includes gain on sale of capital assets and unrestricted grants / contributions.

Governmental activities net position increased almost \$26 million in 2014. Half of this change was related to capital grant funding and developer contributions to infrastructure. Consequently the other increases were in charges for services and program expenses.

Expenses:

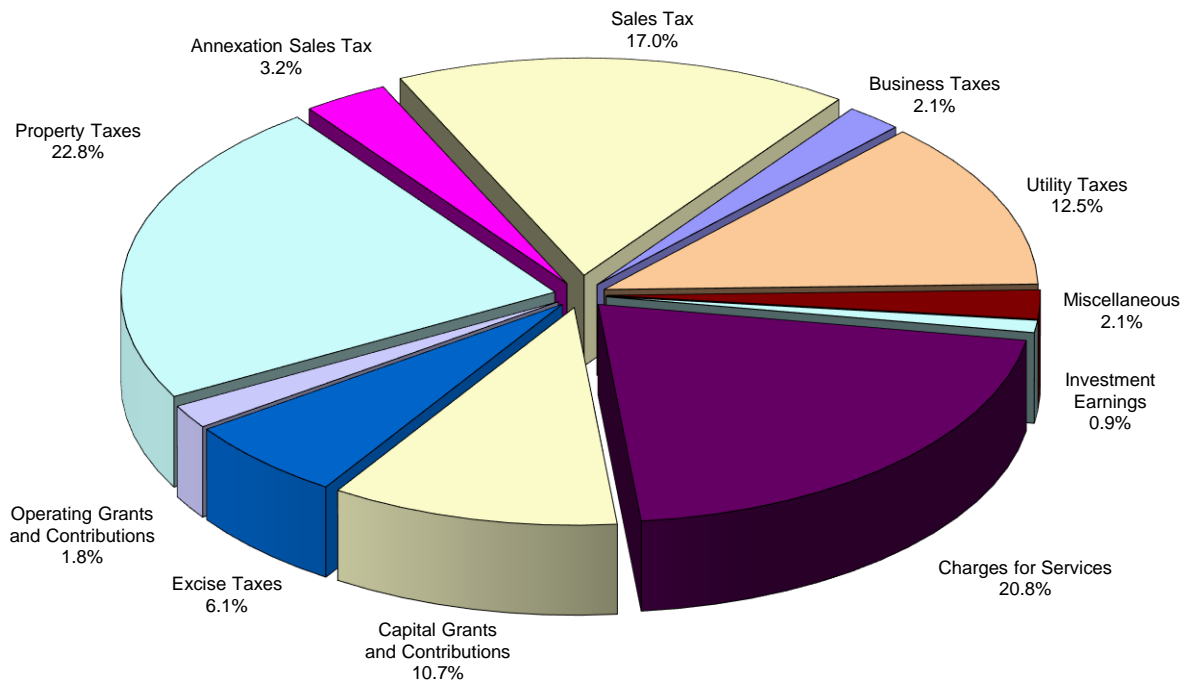
- Overall, governmental expenses increased by less than 5%.
 - Security of Persons and Property incurred an increase just under \$2 million. The City's new Justice Center opened in July of 2014. Our existing Police Department and Municipal Court relocated to the new building mid-year. Additionally, an expanded jail was available in late 2014. The police department had an increase in cost of \$1.5 million due to filled position vacancies and prisoner lodging costs during the transition.
 - The \$1.1 million increase in Economic Environment is related to an increase in services related to permitting.
 - The research, design, and outreach related to the Aquatic Recreation Community Center is the majority of the increase in Culture and Recreation costs for 2014. The City will continue to explore this topic into 2015.

Revenues:

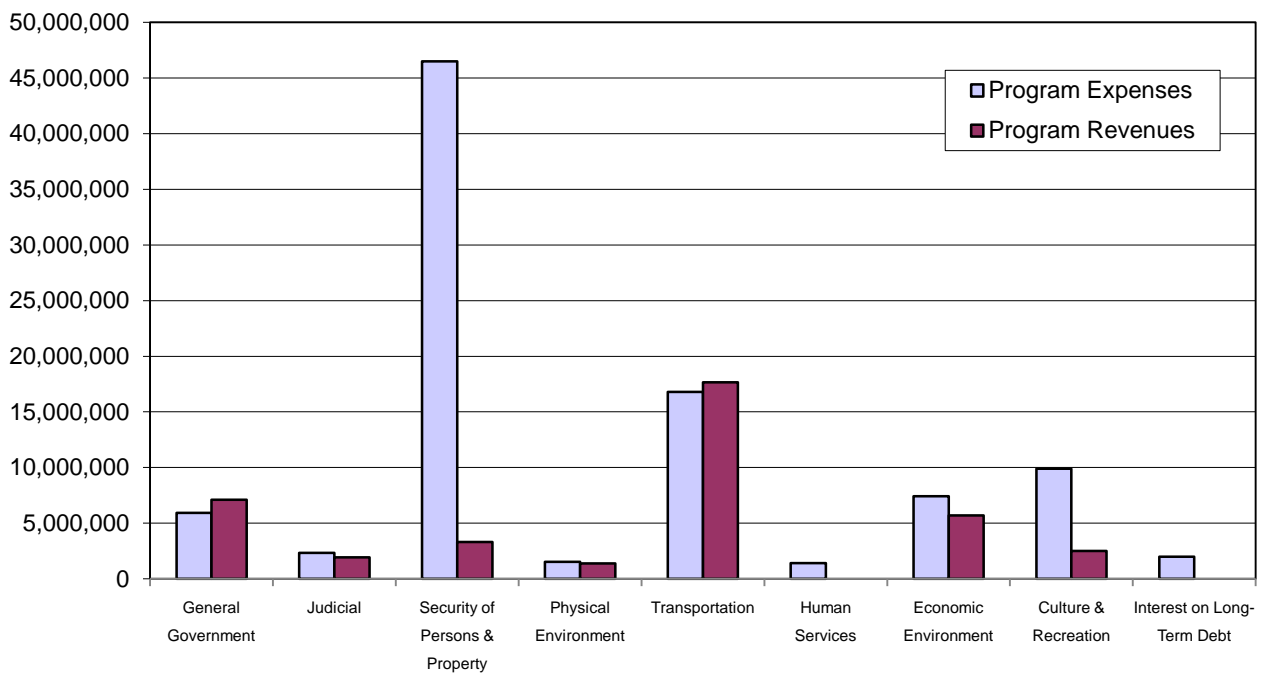
- Charges for services revenue had an increase of \$2.3 million from 2013 to 2014.
 - The predominant increase in charges for services is related to development fees. The increase in transportation of \$1.1 million is road impact fees, and the culture and recreation increase of \$400,000 is park impact fees.
 - Other increases in development activity resulted in additional fees collected and reported for the General Government and Economic Environment activities.
- Operating Grants and Contributions continue to be around \$2 million.
 - The Motor Vehicle Fuel Tax is roughly 80% of this revenue category. It remains consistent at \$1.7 million annually.
 - Federal, state, and local grants are the lesser part of Operating Grants and Contributions. Many of these amounts are somewhat stable from year to year and enhance the City's ability to consistently provide services. In 2014 these grants include funds for energy efficiency implementations, emergency management operations, community safety programs, historic property surveys and funding for the arts.
- Capital Grants and Contributions nearly doubled when compared to 2013.
 - Developer contributions comprise 56% of this amount. New development in the 2011 annexed portion of the City is driving the spike in private projects that add to the City's streets, curb, gutter, and related infrastructure.

- The City continues to improve the Cross Kirkland Corridor trail that was once a rail right of way. In 2014 the City secured funding from the Federal Department of Transportation, Washington State Department of Commerce, Trade and Economic Development for \$1.8 million. The Corridor provides a 5.7 mile north/south connection of neighborhoods and businesses within the City.
 - Federal Transportation funding was fundamental to completion of the roadway extension of NE 120th Street. This project involved installing new roadway, curb, sidewalk and traffic signals that were included in the City's comprehensive plan. Capital grants totaled over \$2.2 million in 2014 for this project.
- The City's general revenues reflect a modest increase of 4% from 2013 to 2014.
 - Property tax revenues increased by only 2% in 2014, reflective of a 1% tax increase and new construction.
 - Investment earnings increased by over \$1 million year to year, nearly half of which is due to the change in fair market value of the investments between 2013 and 2014 year end.

Revenues by Source - Governmental Activities



Program Expenses vs. Program Revenues - Governmental Activities



Business-type activities, which relate to the City's utilities, had an increase in net position of \$13.6 million, primarily due to operating income of \$5.5 million and capital grants, developer contributions and connection charges of \$8.3 million.

Water/sewer operating revenues increased by \$1.1 million compared to the prior year primarily the result of a water rate increase of 4.9% and an increase in consumption.

Surface Water operating revenues increased by \$0.11 million primarily due to an increase in the number of accounts.

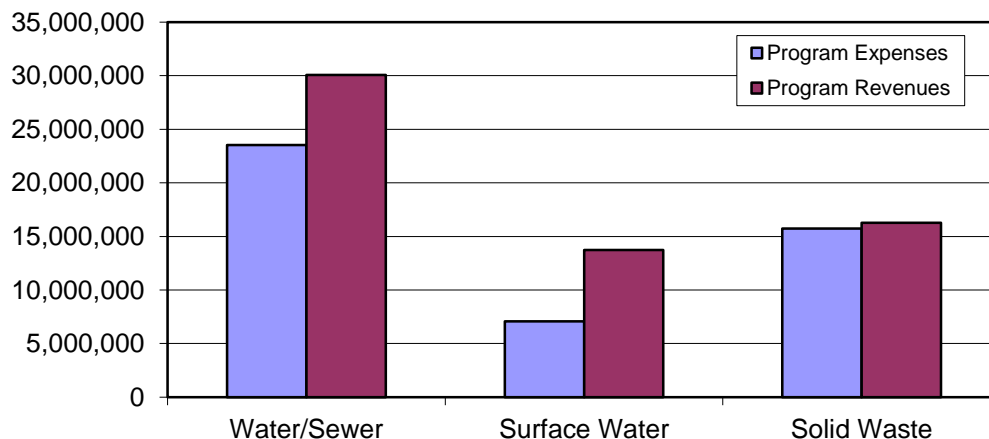
Solid Waste operating revenues decreased by \$0.24 million due to the City Utility Tax being included in operating revenues beginning in 2013. By 2014 the change in operating revenues because of this inclusion had less of an impact than in 2013.

Capital contributions comprised of utility connection charges, developer infrastructure contributions, capital grants, and intergovernmental asset transfers totaled \$8.29 million for 2014. Details for these amounts are shown below:

	<u>Water</u>	<u>Sewer</u>	<u>Surface Water</u>	<u>Total</u>
2014 Connection Charges Collected	473,358	1,244,225	128,427	1,846,010
2014 Developer Infrastructure Contributions	1,040,343	764,880	3,196,711	5,001,934
2014 Capital Grants	-	-	1,045,376	1,045,376
2014 Asset Transfer	395,254	-	-	395,254
	<u>\$ 1,908,955</u>	<u>\$ 2,009,105</u>	<u>\$ 4,370,514</u>	<u>\$ 8,288,574</u>

The infrastructure contributions detailed above represent 37 percent of the increase in net position. These increases are actually reflected as additions to capital assets for the utility functions and are presented in Note 5 of this report.

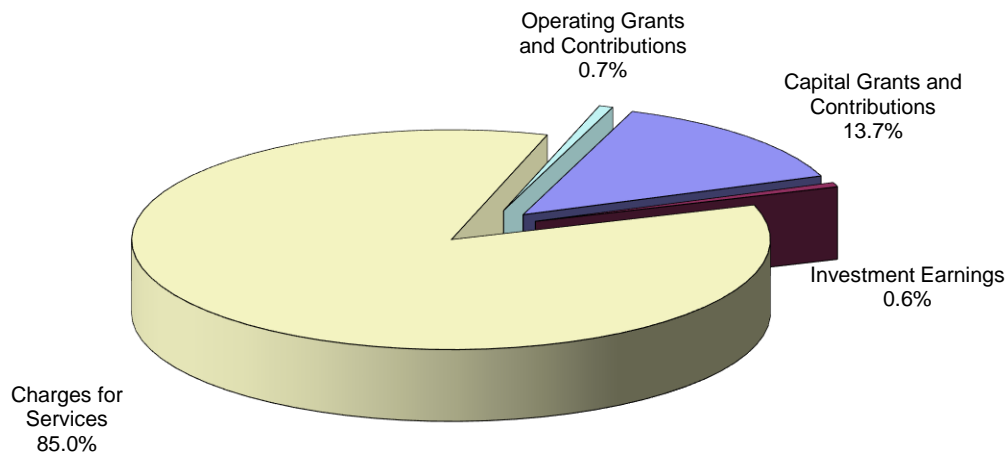
Program Expenses vs. Program Revenues - Business-Type Activities



The City of Kirkland's 2014 utility net income (before capital contributions and transfers) was about \$5.5 million. The components are as follows:

Water/Sewer	\$2.6 million
Surface Water	\$2.3 million
Solid Waste	\$0.6 million

Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The purpose of the City's governmental funds is to report on near-term inflows, outflows, and balances of spendable resources. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at year end.

At the end of the current year, the City's combined ending governmental fund balance was \$86.9 million, which represents an increase of \$4.8 million from the prior year. Of the total ending fund balance, over \$35 million is restricted and subject to an external legal constraint.

The costs to complete the City's new Justice Center have expended bond funds in 2014 by \$2.5 million. The remaining public safety facilities restriction is related to bond funds for a consolidated fire station project which is still in the early stages of development.

Another \$16 million is restricted for transportation and parks projects that are funded with real estate excise taxes, grants, and impact fees. The Excise Capital Improvement fund holds another \$12 million in excise taxes that have yet to be designated for specific projects but the funding is still restricted for that purpose.

The committed fund balance of \$4 million has been constrained by the City Council for specific purposes. The State of Washington requires the City to have a Contingency Fund. This fund balance of \$2.2 million is a separate fund for the City but activity is shown within the General Fund for reporting purposes. Several interlocal agreements commit \$1.3 million of funds for public safety purposes.

The assigned balance of \$29.6 million is remaining amounts that have been determined by the City Manager, Finance Director, or City Council direction to be constrained. The Street Operating Fund does not meet the criteria for a special revenue fund as defined by GASB Statement 54 but is functionally required in order for the City to report the administration, maintenance, and minor construction of the City's transportation infrastructure to the State Legislature. The balance in the fund at year end was \$5.7 million. The City has funds assigned to meet operating obligations for activities such as labor negotiations, development services activities, overtime costs, litigation, property acquisition, park enhancements, and medical retiree benefits. These amounts comprise \$24 million of the year end fund balance. The unassigned balance of \$17.7 million in the general fund consists of amounts not otherwise classified such as revenue stabilization, cost of living adjustment, and working capital. Technically, they are unrestricted, which means they are available for spending at the City's discretion. A significant portion of the unassigned balance is budgeted to fund reserve replenishments and additions, creation of equipment sinking funds, carryovers, and one-time service packages in the 2015-2016 biennium.

What follows is a brief analysis of each of the City's major governmental funds.

The general fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. At the end of 2014, the fund balance of the general fund was \$37.5 million, which represents an increase from the prior year of \$2.7 million.

General Fund revenues increased by a modest 3% in 2014. Sales tax increased \$1.2 million due to growth in services, retail and auto/gas retail.

General fund expenditures increased by \$4.2 million in 2014. Additional jail costs and increased police staff costs at the new Public Safety Building are reflected in the additional \$2 million in Security of Persons and Property expenditures. The Parks Department is in the process of reviewing the feasibility of a new recreation center which is reflected in their increased expenditure totals. Other increases in general fund activity are related to review and permitting services.

The excise tax capital improvement fund accounts for revenue from the first and second quarter percent real estate excise tax, which is reserved for the funding of capital projects related to streets, sidewalks, traffic improvements, parks, fire protection facilities, and other public facilities. The fund balance at the end of 2014 was \$12.4 million. Transfers for over \$4 million were used to fund scheduled capital projects.

The general capital projects fund accounts for the acquisition and/or construction of general governmental infrastructure, facilities, and equipment that are approved in the City's capital

improvement program (CIP) and that are funded from other general revenue sources, grants, and restricted funds. The ending fund balance decreased from the prior year. Construction was completed on the City's new Justice Center in 2014. Costs in 2014 for this project were \$9 million of the total \$14 million in total capital expenditures. The remaining highlighted projects were a building acquisition, safety equipment, network infrastructure and facility efficiency projects.

The transportation capital projects fund accounts for transportation projects approved in the CIP, including those that are funded partially or wholly by grants from other governments. The fund balance at the end of 2014 was \$6.5 million, which is an increase of \$2.2 million from 2013. Balances in both capital project funds vary from year to year dependent upon CIP activity and the size of projects in process.

Proprietary Funds

The City of Kirkland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During 2014, there was a net increase of \$0.5 million in biennial appropriations between the original adopted budget and the final amended budget. These amendments were necessitated by changes to actual revenues and actual expenditures within the general fund. Note that the figures cited are biennial amounts for 2013-2014 and that the budget is recorded on a cash basis.

Following are the major components of the changes:

- Development-related revenue exceeded budget expectations in 2014 and approximately \$0.2 million was recognized to fund staffing and other resources to address increased workload. Sales tax revenue received in 2014 also exceeded budget expectations and approximately \$0.1 million was recognized to fund community outreach and site planning for a potential aquatics and recreation community center.
- Grants and donations for cultural and transportation/commute trip reduction added \$93,000 in revenue.
- Additional interest revenue of \$30,000 was recognized to fund investment advisor services.
- Transfers of approximately \$20,000 from another operating fund provided funding for retiree medical costs and a housekeeping appropriation adjustment to operating transfers of approximately \$30,000 was made to correct a budget adjustment made in the prior year.

The actual General Fund 2014 results on a cash basis varied from the final amended budget as follows:

- Actual 2014 General Fund revenues ended the year \$5.9 million over the budgeted level (\$85.3 million versus budget of \$79.4 million), primarily due to sales and gambling taxes, business

license and franchise fees, and development services-related revenue ending the year higher than budget.

- Actual 2014 General Fund expenditures ended the year about \$1.5 million under budget excluding operating transfers. The balance is a combination of uncompleted projects and staffing vacancies.

Capital Asset and Debt Administration

Capital Assets

The City of Kirkland's investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$943.1 million (net of accumulated depreciation), which represents a \$23.6 million increase from the prior year. This investment in and capitalization of capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission and distribution systems, roads, and bridges. More details about changes in capital assets are explained below.

Below are notable changes to capital assets that involve expenditures in the current year or the capitalization of projects that were in process for several years.

- The City has completed construction on the Kirkland Justice Center. The 2014 expenditures were over \$9 million bringing the total cost of construction to over \$51 million in this multi-year project. The City began using the building in 2014 for the Police Department and Municipal Court activities. Much of the capital costs are bond funded and do not directly affect the City's Net Investment in Capital Assets.
- After relocating the Municipal Court to the new facility the City sold their current building for \$3.2 million.
- The City purchased a property for \$2.3 million in the Totem Lake area for future park expansion. The property is currently a rental property until redevelopment in the vicinity begins within the next few years.
- \$7.2 million spent on transportation improvements which may include new or enhanced roadways, intersections, sidewalks, crosswalks, signals, traffic calming projects, and utility undergrounding. This amount includes \$2.3 million invested in the Cross Kirkland Corridor as enhancements to pedestrian access and \$2.4 million on the 120th Street roadway extension project.
- Over \$7.2 million was received by developers constructing new infrastructure along with their improvements in Kirkland.
- \$3.2 million spent on water and sewer utility improvement projects, most of which are still in progress. \$1.4 million capitalized on water and sewer utility improvement projects, most of which were in previous year's construction in progress.
- \$3.1 million spent on surface water utility improvement projects, most of which are still in progress.

Following is a condensed version of the city's capital assets (expressed in millions of dollars), net of depreciation, related to governmental and business-type activities for fiscal years 2013 and 2014:

City of Kirkland's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$589.56	\$589.06	\$2.03	\$2.03	\$591.59	\$591.09
Buildings	25.08	26.70	-	-	25.08	26.70
Improvements other than buildings	17.09	19.96	136.08	132.99	153.17	152.95
Machinery and equipment	8.34	8.25	-	-	8.34	8.25
Infrastructure	124.88	123.03	-	-	124.88	123.03
Construction in progress	63.48	45.28	14.56	9.69	78.04	54.97
Artwork	1.71	1.65	-	-	1.71	1.65
Total	<u>\$830.14</u>	<u>\$813.93</u>	<u>\$152.67</u>	<u>\$144.71</u>	<u>\$982.81</u>	<u>\$958.64</u>

Additional information on the City of Kirkland's capital assets can be found in Note 5 of this report.

Long-term Debt

At the end of the current fiscal year, the City of Kirkland had total General Obligation bonded debt outstanding of \$41.76 million and other long-term debt of \$1.57 million. The total outstanding debt (expressed in millions of dollars) at the end of 2013 and 2014 is broken down between governmental and business-type activities as follows:

City of Kirkland's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$41.76	\$44.29	-	-	\$41.76	\$44.29
Revenue Bonds	-	-	-	0.48	-	0.48
Public Works Trust Fund Loans	-	-	1.57	1.77	1.57	1.77
Total	<u>\$41.76</u>	<u>\$44.29</u>	<u>\$1.57</u>	<u>\$2.25</u>	<u>\$43.33</u>	<u>\$46.54</u>

On December 5, 2014 Standard and Poor's affirmed the City of Kirkland's AAA rating. On August 15, 2011, Moody's Investors Service assigned a rating of Aa2 to City of Kirkland, Washington's Limited Tax General Obligation Bonds, 2011. Moody's ratings for Kirkland are now Aa2 for both Unlimited Tax GO Bonds and Limited Tax GO Bonds.

Washington State statute limits the amount of general obligation debt a governmental entity may issue to 7.5 percent of its total assessed valuation, subject to a 60 percent majority vote of qualified electors. Of the 7.5 percent limit, 2.5 percent is for general purposes, 2.5 percent for open space/park/capital facilities, and 2.5 percent for utilities. Non-voted (i.e. limited tax) general obligation debt is limited to 1.5 percent of assessed valuation. The combination of voted and non-voted general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

The City's assessed valuation for 2014 was \$15.8 billion, and the total remaining amount of unlimited tax and limited tax general obligation debt the City may issue is \$1,175.8 million.

Additional information on the City of Kirkland's long-term debt can be found in Note 9 of this report and in the Statistical Section of the report.

Economic Factors and Next Year's Budgets and Rates

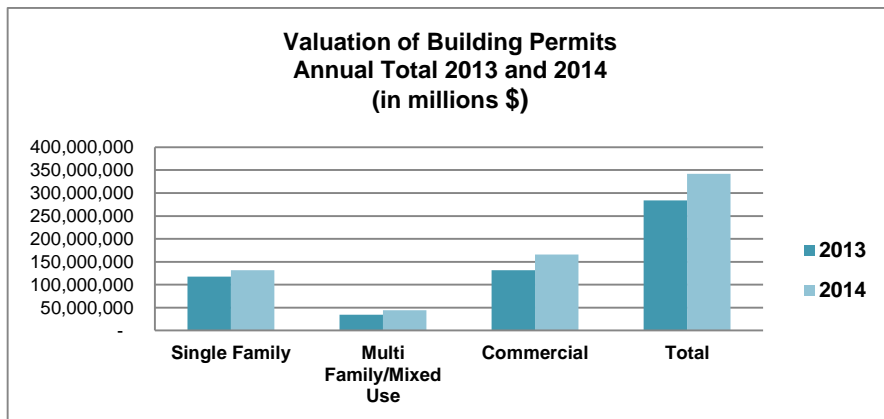
The Washington State economy continued to expand adding 23,700 new jobs in the fourth quarter of 2014, according to the February 2015 update from the Washington State Economic and Revenue Forecast Council. This growth was stronger than forecasted with employment growing by 90,300 jobs in 2014. The forecast also includes estimates for state personal income through the third quarter of 2014. The current estimate is \$350.2 billion, which is higher than 2013 but \$1.2 billion lower than forecast in November 2014.

U.S. unemployment for December 2014 was 5.6 percent, down from 6.7 percent in December 2013. Washington State unemployment ended the year at 6.3 percent, down from 6.7 percent in December 2013. Unemployment rates by month for the County, Washington State, and the United States are shown on the following table.

Month	King County	Washington	United States
December 2013	4.7%	6.7%	6.7%
January 2014	4.8%	6.5%	6.6%
February 2014	5.0%	6.4%	6.7%
March 2014	4.9%	6.3%	6.6%
April 2014	4.1%	6.2%	6.2%
May 2014	4.4%	6.2%	6.3%
June 2014	4.9%	6.1%	6.1%
July 2014	4.9%	6.2%	6.2%
August 2014	4.7%	6.2%	6.1%
September 2014	4.5%	6.2%	5.9%
October 2014	4.4%	6.3%	5.7%
November 2014	4.5%	6.3%	5.8%
December 2014	4.2%	6.3%	5.6%
2014 Average	4.6%	6.3%	6.2%
2013 Average	5.2%	7.0%	7.4%

Source: United States Department of Labor, Bureau of Labor Statistics

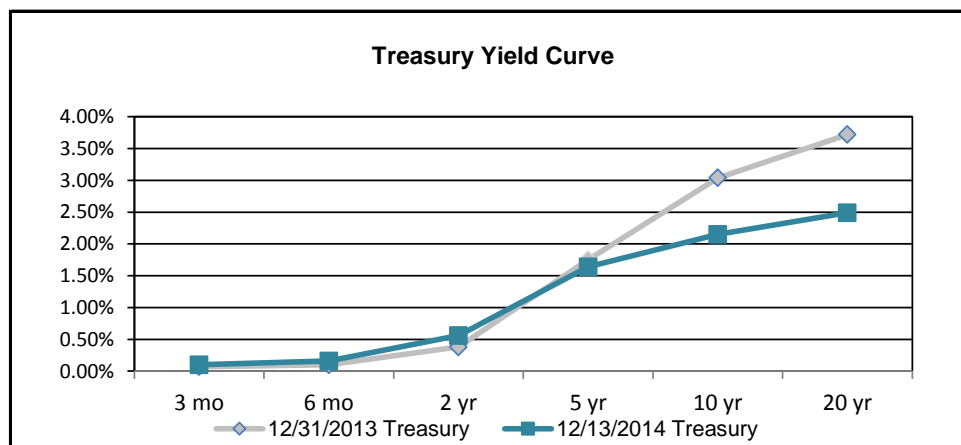
Local development activity, in terms of the valuation of the City's building permits for 2014, has risen compared to 2013. This is illustrated in the following chart. Development activity has increased across the board, with the largest increase in dollar terms coming from commercial permits and the largest increase by percentage coming from multi-family/mixed use permits. Permit activity in the fourth quarter was equal to the third quarter, with each of those quarters accounting for 22 percent of the year's development valuations.



National housing construction improved in the fourth quarter of 2014. Housing units authorized by permits increased by 7.0 percent over the third quarter, according to the Washington State Economic and Revenue Council. Washington State housing market was strong, but stable in the fourth quarter of 2014. The sales prices of existing homes have remained robust over the past year and were stable during the fourth quarter, although prices were still 11.7 percent below their 2007 peak.

Inflation in the Seattle area remained low. In December 2014, the Seattle all items CPI was 1.7% higher than in the previous December compared to the 0.8% increase for the U.S. city average. Core inflation in Seattle was 2.6% compared to 1.6% for the nation.

Longer term Treasury yields decreased with the yield curve becoming flatter at the long end of the curve. The Fed Funds rate continued at 0.25 percent through the fourth quarter of 2014. Any changes to the Fed Funds rate are not anticipated to occur until late 2015.



Sales tax growth slowed between the third and fourth quarter of 2014 after growing quickly during the first three quarters of the year. The high growth in year-over-year sales tax that was experienced in 2013 slowed over the course of the year in 2014. Big ticket items, such as auto purchases and contracting services, were significant contributors to growth in 2014, but growth in-services and other retail contributed more to increased revenues in 2014. Together, these four sectors contributed 63.2 percent of the increases in sales tax for the year. All but one sector in the City experienced growth in 2014.

Requests for Information

This financial report is designed to provide a general overview of the City of Kirkland's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to, Michael Olson, Director of Finance and Administration, City of Kirkland, 123 Fifth Avenue, Kirkland, WA 98033-6189.

City of Kirkland
Statement of Net Position
December 31, 2014

Page 1 of 2

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	39,192,737	17,337,572	56,530,309
Investments (Note 3)	70,216,412	28,739,481	98,955,893
Accounts Receivable	10,771,020	10,111,449	20,882,469
Intergovernmental Receivable	3,805,788	702,219	4,508,007
Internal Balances	798,945	(798,945)	0
Inventories	47,541	367,812	415,353
Prepayments	37,241	21,864	59,105
Deposits	1,249,478	0	1,249,478
Negative Net Pension Obligation	909,065	0	909,065
Capital Assets (Note 5)			
Land and Artwork	591,278,970	2,025,871	593,304,841
Depreciable Capital Assets (net of accumulated depreciation)	50,509,508	136,083,492	186,593,000
Depreciable Infrastructure (net of accumulated depreciation)	124,874,557	0	124,874,557
Construction in Progress	63,478,119	14,556,734	78,034,853
Total Assets	957,169,382	209,147,550	1,166,316,932
Deferred Outflows of Resources			
Deferred Charge on Refunding	322,802	0	322,802
Total Deferred Outflows of Resources	322,802	0	322,802

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

City of Kirkland
Statement of Net Position
December 31, 2014

Page 2 of 2

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts Payable and Other Accrued Liabilities	5,876,675	2,339,245	8,215,920
Intergovernmental Payable	200,732	1,357,926	1,558,658
Unearned Revenue	568,117	1,911,420	2,479,537
Accrued Interest Payable	159,897	3,501	163,398
Deposits Payable	1,341,011	0	1,341,011
Noncurrent Liabilities			
Due within one year	5,019,587	348,520	5,368,107
Due in more than one year	44,165,478	1,376,800	45,542,278
Total Liabilities	57,331,497	7,337,411	64,668,908
Deferred Inflows of Resources			
Deferred Charge on Refunding	141,555	0	141,555
Total Deferred Inflows of Resources	141,555	0	141,555
Net Position			
Net Investment in Capital Assets	792,032,185	151,092,784	943,124,969
Restricted for			
Tourism	379,037	0	379,037
Parks and Recreation	6,208,835	0	6,208,835
Public Safety	5,917,025	0	5,917,025
Capital Improvements	12,424,292	0	12,424,292
Transportation	10,778,856	0	10,778,856
Debt Service	329,296	0	329,296
General Government	3,511,310	0	3,511,310
Unrestricted	68,438,296	50,717,355	119,155,651
Total Net Position	900,019,132	201,810,139	1,101,829,271

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

City of Kirkland
Statement of Activities
For the fiscal year ended December 31, 2014

Functions/Programs	Program Revenues			Net (Expense/Revenue and Changes in Net Position)		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities						
General Government	5,918,750	7,092,815	12,944	0	1,187,009	0
Judicial	2,331,733	1,905,705	22,503	0	(403,525)	0
Security of Persons and Property	46,493,793	3,095,773	207,588	20,441	(43,169,991)	0
Physical Environment	1,533,702	1,377,746	0	0	(155,956)	0
Transportation	16,790,922	3,179,516	1,731,513	12,757,709	877,816	0
Human Services	1,402,936	0	0	0	(1,402,936)	0
Economic Environment	7,424,372	5,665,855	38,617	0	(1,719,900)	0
Culture and Recreation	9,897,398	2,405,184	90,553	15,438	(7,386,223)	0
Interest on Long Term Debt	1,980,886	0	0	0	(1,980,886)	0
Total Governmental Activities	93,774,492	24,722,594	2,103,718	12,793,588	(54,154,592)	0
Business Type Activities						
Water/Sewer	23,533,618	26,145,803	0	3,918,060	0	6,530,245
Surface Water	7,064,149	9,067,528	289,371	4,370,514	0	6,663,264
Solid Waste	15,727,658	16,147,436	133,690	0	0	553,468
Total Business Type Activities	46,325,425	51,360,767	423,061	8,288,574	0	13,746,977
Total Government	140,099,917	76,083,361	2,526,779	21,082,162	(54,154,592)	13,746,977
General Revenues						
Sales Taxes					23,974,307	0
Property Taxes					27,178,110	0
Utility Taxes					14,892,606	0
Excise Taxes					7,270,619	0
Business Taxes					2,489,060	0
Other Taxes					2,324,241	0
Unrestricted Grants & Contributions					229,671	0
Investment Earnings					1,078,754	386,690
Transfers, internal activities					537,149	(537,149)
Total General Revenues & Transfers					79,974,517	(150,459)
Total General Revenues & Transfers						79,824,058
Change in net position					25,819,925	13,596,518
Net position at beginning of year					874,110,962	188,213,621
Prior Period Adjustment (Note 16)					88,245	0
Net Position at end of year					900,019,132	201,810,139
Net Position at end of year						1,101,829,271

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

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2014

Page 1 of 2

	General Fund	Excise Capital Improvement	General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
Assets						
Current Assets						
Cash and Cash Equivalents	10,505,218	4,348,876	8,420,085	1,668,987	3,158,141	28,101,307
Investments	22,579,085	7,208,775	14,004,156	2,777,234	5,234,603	51,803,852
Receivables						
Taxes	6,414,473	866,641	0	0	107,343	7,388,457
Accounts	1,327,614	0	0	0	0	1,327,614
Due From Other Funds	810,501	0	0	0	0	810,501
Intergovernmental Receivable	130,605	0	208,000	3,421,450	0	3,760,055
Prepayments	37,241	0	0	0	0	37,241
Restricted Assets						
Deposits	1,249,478	0	0	0	0	1,249,478
Total Assets	43,054,216	12,424,292	22,632,240	7,867,671	8,500,087	94,478,506
Liabilities						
Accounts Payable	834,479	0	541,734	1,321,147	22,251	2,719,611
Wages Payable	2,557,702	0	0	0	63,232	2,620,934
Taxes Payable	143,436	0	0	0	0	143,436
Due to Other Funds	2,690	0	0	0	164	2,854
Intergovernmental Payable	180,639	0	2,889	467	2,106	186,101
Payable from Restricted Assets						
Deposits Payable	1,341,011	0	0	0	0	1,341,011
Unearned Revenue	0	0	15,000	0	0	15,000
Total Liabilities	5,059,957	0	559,623	1,321,614	87,753	7,028,947
Deferred Inflows of Resources						
Unavailable Revenue - Property Taxes	452,000	0	0	0	68,817	520,817
Total Deferred Inflows of Resources	452,000	0	0	0	68,817	520,817
Fund Balances						
Restricted for						
Customer Deposits	1,249,479	0	0	0	0	1,249,479
Tourism	0	0	0	0	379,037	379,037
Debt Service	0	0	0	0	329,296	329,296
Drug Enforcement	65,970	0	0	0	0	65,970
Public Safety Facilities	0	0	4,564,969	0	0	4,564,969
Transportation Projects	0	0	399,130	6,081,448	3,862,704	10,343,282
Culture and Recreation Projects	0	0	3,026,458	0	3,007,377	6,033,835
Capital Improvements	0	12,424,292	0	0	0	12,424,292

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

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2014

Page 2 of 2

	General Fund	Excise Capital Improvement	General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
Committed for						
Fire Interlocals	60,405	0	1,225,681	0	0	1,286,086
Contingency Fund	2,201,870	0	0	0	0	2,201,870
Parks Interlocal	0	0	175,000	0	0	175,000
Transportation Projects	0	0	0	435,574	0	435,574
General Government Activities	59,961	0	0	0	0	59,961
Assigned for						
Street Operating Fund	5,675,187	0	0	0	0	5,675,187
General Reserves	4,905,521	0	0	0	0	4,905,521
Public Safety Activities	725,491	0	0	0	0	725,491
Development Services	4,162,265	0	0	0	0	4,162,265
Parks and Recreation Activities	385,693	0	0	0	0	385,693
General Government Activities	324,549	0	0	0	0	324,549
Cemetery Operations	0	0	0	0	765,103	765,103
Capital Projects	0	0	12,681,379	29,036	0	12,710,415
Unassigned	17,725,868	0	0	0	0	17,725,868
Total Fund Balances	37,542,259	12,424,292	22,072,617	6,546,058	8,343,517	86,928,743
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	43,054,216	12,424,292	22,632,240	7,867,672	8,500,087	94,478,507

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	822,346,730
Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds	3,209,602
Long term liabilities are not due and payable in the current period and are not reported in the funds	(48,726,522)
Internal service funds are used by management to charge the costs of certain activities to individual funds	36,260,579
The assets and liabilities are included in governmental activities in the statement of net position	
Net Position of governmental activities	900,019,132

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

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the fiscal year ended December 31, 2014

Page 1 of 2

	General Fund	Excise Capital Improvement
Revenues		
Taxes and Assessments	64,909,109	6,973,395
Licenses and Permits	8,337,352	0
Intergovernmental	2,969,037	0
Charges for Services	12,789,529	0
Fines and Forfeitures	2,143,143	0
Investment Interest	595,925	73,655
Miscellaneous Revenues	1,181,603	0
Total Revenues	92,925,698	7,047,050
Expenditures		
Current		
General Government	11,491,306	0
Security of Persons and Property	44,763,611	0
Physical Environment	3,416,756	0
Transportation	6,622,549	0
Economic Environment	8,623,713	0
Culture and Recreation	6,214,931	0
Debt Service		
Principal	0	0
Interest	0	0
Capital Outlay	115,435	0
Total Expenditures	81,248,301	0
Excess (Deficiency) of revenues		
Over (under) expenditures	11,677,397	7,047,050
Other Financing Sources (Uses)		
Sale of Capital Assets	0	0
Insurance Recovery	41,690	0
Transfers In	470,007	51,593
Transfers Out	(9,526,082)	(4,369,031)
Total Other Financing Sources (Uses)	(9,014,385)	(4,317,438)
Net Change in Fund Balance	2,663,012	2,729,612
Fund Balances Beginning of Year	34,879,247	9,694,680
Fund Balances End of Year	37,542,259	12,424,292

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

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2014

Page 2 of 2

General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
0	0	4,967,334	76,849,838
0	0	0	8,337,352
126,432	5,493,868	552,903	9,142,240
196,562	448,817	3,585,049	17,019,957
0	0	0	2,143,143
150,369	0	45,180	865,129
300,102	0	25,302	1,507,007
773,465	5,942,685	9,175,768	115,864,666
0	0	28	11,491,334
96,786	0	0	44,860,397
0	0	51,803	3,468,559
0	3,859,532	0	10,482,081
0	0	221,549	8,845,262
200,430	0	2,426,065	8,841,426
0	0	2,537,949	2,537,949
0	0	1,980,886	1,980,886
14,821,402	7,605,145	3,918	22,545,900
15,118,618	11,464,677	7,222,198	115,053,794
(14,345,153)	(5,521,992)	1,953,570	810,872
3,193,313	0	23,484	3,216,797
0	0	0	41,690
7,053,586	7,746,351	2,854,495	18,176,032
(540,768)	(50,320)	(2,968,045)	(17,454,246)
9,706,131	7,696,031	(90,066)	3,980,273
(4,639,023)	2,174,040	1,863,504	4,791,145
26,711,640	4,372,018	6,480,013	82,137,598
22,072,617	6,546,058	8,343,517	86,928,743

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

City of Kirkland
**Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities**
For the fiscal year ended December 31, 2014

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

Net change in fund balances for governmental funds	4,791,145
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Governmental funds report capital outlays as expenditures. In the statement of activities the cost of assets is depreciated over their estimated useful lives.

Capital outlays	22,545,900	
Depreciation	(10,002,446)	
Contributed Infrastructure	7,263,840	
Sale of Building	(3,145,523)	
CIP Closures	(534,686)	
	16,127,085	16,127,085

The issuance of long term debt is a resource and the repayment of bond principal, issuance costs and bond discounts are expenditures in governmental funds. These transactions affect liabilities in statement of net position.

Debt Retired	2,537,949	
Bond (Premium) Discount	8,005	
	2,545,954	2,545,954

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in Court Receivable		(36,069)
Change in Pension Asset		(73,777)
Bond Subsidy		(3,945)

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

Change in Compensated Absences		(39,633)
Accrued Interest		14,598
Other Post Employment Benefit Obligation		(532,798)

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

3,027,366

Change in net position of governmental activities	25,819,925
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The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
General Fund
For the year ended December 31, 2014

	Original Budget 2013-2014	Final Budget 2013-2014	2013 Actual Amounts Budgetary Basis	2014 Actual Amounts Budgetary Basis	Actual 2013-2014 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	109,097,641	110,332,023	56,867,184	59,090,759	115,957,943	5,625,920
Licenses and Permits	12,936,530	13,290,785	7,642,826	7,920,843	15,563,669	2,272,884
Intergovernmental	2,290,953	2,581,996	1,115,520	1,262,800	2,378,320	(203,676)
Charges for Services	23,574,226	25,231,984	13,539,635	13,282,076	26,821,711	1,589,727
Fines and Forfeitures	3,816,924	3,858,924	2,167,476	2,120,028	4,287,504	428,580
Interest on Sales Tax Contract	120,000	120,000	79,235	97,887	177,122	57,122
Investment Interest - Dedicated	451,200	481,200	333,022	291,114	624,136	142,936
Contributions/Donations	44,800	97,300	63,908	156,303	220,211	122,911
Miscellaneous Revenues	820,321	820,321	563,081	695,381	1,258,462	438,141
Total Revenues	153,152,595	156,814,533	82,371,887	84,917,191	167,289,078	10,474,545
Expenditures						
Current						
General Government	20,334,421	21,660,263	10,406,947	10,635,987	21,042,934	617,329
Security of Persons and Property	95,118,406	98,275,493	47,205,627	50,140,892	97,346,519	928,974
Physical Environment	7,417,620	8,639,704	3,684,858	4,182,778	7,867,636	772,068
Transportation	1,075,602	1,195,655	545,503	518,236	1,152,647	43,008
Economic Environment	6,816,151	7,624,229	3,470,277	3,715,919	7,186,196	438,033
Human Services	2,751,944	3,029,769	1,311,034	1,359,522	2,670,556	359,213
Culture and Recreation	11,401,725	12,146,638	5,758,952	6,191,923	11,950,875	195,763
Capital Outlay	105,940	133,440	0	0	0	133,440
Total Expenditures	145,021,809	152,705,191	72,383,198	76,745,257	149,217,363	3,487,828
Excess of revenues over expenditures	8,130,786	4,109,342	9,988,689	8,171,934	18,071,715	13,962,373
Other Financing Sources (Uses)						
Insurance Recovery	0	16,944	29,771	500	30,271	13,327
Transfers In	587,763	721,963	402,008	319,955	721,963	0
Transfers Out	(11,650,568)	(15,268,489)	(8,035,883)	(6,138,738)	(14,174,621)	1,093,868
Total Other Financing Sources (Uses)	(11,062,805)	(14,529,582)	(7,604,104)	(5,818,283)	(13,422,387)	1,107,195
Net Change in Fund Balance	(2,932,019)	(10,420,240)	2,384,585	2,353,651	4,649,328	15,069,568
Fund Balances Beginning of Year	17,886,480	21,345,779	21,345,779	23,730,364	21,345,779	0
Fund Balances End of Year	14,954,461	10,925,539	23,730,364	26,084,015	25,995,107	15,069,568

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

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Excise Tax Capital Improvement Special Revenue Fund
For the year ended December 31, 2014

	Original Budget 2013-2014	Final Budget 2013-2014	2013 Actual Amounts Budgetary Basis	2014 Actual Amounts Budgetary Basis	Actual 2013-2014 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	7,000,000	7,000,000	6,699,986	6,846,464	13,546,450	6,546,450
Investment Interest	84,012	84,012	46,628	48,104	94,732	10,720
Total Revenues	7,084,012	7,084,012	6,746,614	6,894,568	13,641,182	6,557,170
Excess of revenues over expenditures	7,084,012	7,084,012	6,746,614	6,894,568	13,641,182	6,557,170
Other Financing Sources (Uses)						
Transfers In	0	0	482,822	51,593	534,415	534,415
Transfers Out	(6,020,162)	(8,531,043)	(3,983,832)	(4,369,031)	(8,352,863)	178,180
Total Other Financing Sources (Uses)	(6,020,162)	(8,531,043)	(3,501,010)	(4,317,438)	(7,818,448)	712,595
Net Change in Fund Balance	1,063,850	(1,447,031)	3,245,604	2,577,130	5,822,734	7,269,765
Fund Balances Beginning of Year	5,513,163	5,762,774	5,762,774	9,008,378	5,762,774	0
Fund Balances End of Year	6,577,013	4,315,743	9,008,378	11,585,508	11,585,508	7,269,765

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

City of Kirkland
Statement of Net Position
 Proprietary Funds
 December 31, 2014

Page 1 of 2

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water/Sewer	Surface Water	Solid Waste	Total	
Assets					
Current Assets:					
Cash and Cash Equivalents	10,555,783	6,408,797	372,992	17,337,572	11,091,431
Investments (Note 3)	17,497,848	10,623,219	618,414	28,739,481	18,412,559
Receivables					
Interest	200,108	0	0	200,108	0
Contracts	1,911,420	0	0	1,911,420	0
Accounts	4,740,288	322,457	2,914,724	7,977,469	122,945
Assessments	22,452	0	0	22,452	0
Intergovernmental Receivable	16,338	680,489	5,392	702,219	0
Due From Other Funds	12,298	0	0	12,298	0
Inventories	314,967	52,845	0	367,812	47,541
Restricted Assets					
Prepayments	258	21,435	171	21,864	0
Total Current Assets	35,271,760	18,109,242	3,911,693	57,292,695	29,674,476
Noncurrent Assets					
Capital Assets (Note 5)					
Land	47,784	1,978,087	0	2,025,871	0
Depreciable Capital Assets (Net)	84,760,788	51,322,704	0	136,083,492	7,794,427
Construction in Progress	4,532,302	10,024,432	0	14,556,734	0
Total Capital Assets	89,340,874	63,325,223	0	152,666,097	7,794,427
Total Noncurrent Assets	89,340,874	63,325,223	0	152,666,097	7,794,427
Total Assets	124,612,634	81,434,465	3,911,693	209,958,792	37,468,903

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

City of Kirkland
Statement of Net Position
Proprietary Funds
December 31, 2014

Page 2 of 2

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water/Sewer	Surface Water	Solid Waste	Total	
Liabilities					
Current Liabilities					
Accounts Payable	389,511	757,231	993,428	2,140,170	181,244
Claims Payable	0	0	0	0	590,385
Wages Payable	79,869	105,241	13,965	199,075	211,450
Compensated Absences Payable	66,695	51,637	3,274	121,606	135,688
Intergovernmental Payable	921,399	115,703	320,824	1,357,926	14,631
Due to Other Funds	504,201	38,312	268,729	811,242	8,702
Accrued Interest Payable	3,501	0	0	3,501	0
Unearned Revenue	1,911,420	0	0	1,911,420	32,300
Loans and Contracts Payable	226,914	0	0	226,914	0
Total Current Liabilities	4,103,510	1,068,124	1,600,220	6,771,854	1,174,400
Noncurrent Liabilities					
Compensated Absences Payable	16,674	12,909	818	30,401	33,922
Loans and Contracts Payable	1,346,399	0	0	1,346,399	0
Total Noncurrent Liabilities	1,363,073	12,909	818	1,376,800	33,922
Total Liabilities	5,466,583	1,081,033	1,601,038	8,148,654	1,208,322
Net Position					
Net Investment in Capital Assets	87,767,561	63,325,223	0	151,092,784	7,794,427
Unrestricted	31,378,490	17,028,210	2,310,655	50,717,355	28,466,152
Total Net Position	119,146,051	80,353,433	2,310,655	201,810,139	36,260,579

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

City of Kirkland
Statement of Revenues, Expenses and Changes in Fund Net Position
 Proprietary Funds
 For the fiscal year ended December 31, 2014

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds	
	Water/Sewer	Surface Water	Solid Waste	Total	
Operating Revenues					
Charges for Services	25,798,960	8,990,036	16,146,891	50,935,887	22,755,320
Miscellaneous Revenues	346,843	77,492	545	424,880	364,948
Total Operating Revenues	26,145,803	9,067,528	16,147,436	51,360,767	23,120,268
Operating Expenses					
Administrative and General	2,803,625	3,370,935	955,890	7,130,450	12,098,180
Supplies	0	0	0	0	113,975
Maintenance and Operations	14,746,914	1,314,558	12,329,604	28,391,076	6,615,479
Taxes	3,430,964	766,618	2,291,905	6,489,487	0
Depreciation	2,535,487	1,289,183	0	3,824,670	1,541,696
Total Operating expenses	23,516,990	6,741,294	15,577,399	45,835,683	20,369,331
Operating Income (Loss)	2,628,813	2,326,234	570,037	5,525,084	2,750,937
Nonoperating Revenues (Expenses)					
Interest and Investment Revenue	230,419	149,583	6,688	386,690	123,935
Grant Income	0	289,371	133,690	423,061	0
Insurance Recovery	0	0	0	0	471
Interest Expense	(16,597)	0	0	(16,597)	0
Amortization	0	0	0	0	0
Gain (Loss) on Disposal of Capital Assets	(31)	0	0	(31)	84,871
Other Nonoperating Revenues/(Expenses)	0	(322,855)	(150,259)	(473,114)	26,788
Total Nonoperating revenues (expenses)	213,791	116,099	(9,881)	320,009	236,065
Income Before Contributions and Transfers	2,842,604	2,442,333	560,156	5,845,093	2,987,002
Capital Contributions					
Contributions	3,918,060	4,370,514	0	8,288,574	0
Transfers In	0	0	0	0	852,067
Transfers Out	(135,400)	(101,749)	(300,000)	(537,149)	(811,704)
Change in Net Position	6,625,264	6,711,098	260,156	13,596,518	3,027,366
Total Net Position - Beginning	112,520,787	73,642,335	2,050,499	188,213,621	33,144,970
Prior Period Adjustment (Note 16)	0	0	0	0	88,244
Total Net Position - Ending	119,146,051	80,353,433	2,310,655	201,810,139	36,260,579

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

City of Kirkland
Statement of Cash Flows

Proprietary Funds
For the fiscal year ended December 31, 2014
Increase in Cash and Cash Equivalents

Page 1 of 2

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Water/Sewer	Surfacewater	Solid Waste	Total	Funds
Cash Flows From Operating Activities					
Cash Received From Customers	25,459,149	8,865,588	15,717,488	50,042,225	0
Cash Received From Interfund Charges	0	0	0	0	12,370,668
Contributions Received from Employees and Employer	0	0	0	0	9,918,146
Cash From Other Sources	346,279	75,137	456,478	877,894	1,405,059
Cash Paid to Suppliers for Goods and Services	(13,575,761)	(1,023,220)	(12,427,415)	(27,026,396)	(11,539,995)
Cash Paid to Employees for Services	(1,848,160)	(2,344,820)	(295,704)	(4,488,684)	(5,215,479)
Cash Paid in Lieu of Taxes	(3,367,100)	(758,327)	(2,295,852)	(6,421,279)	0
Cash Paid for Central Business Functions	(2,184,504)	(1,373,529)	(572,741)	(4,130,774)	(2,036,411)
Cash Provided by Operating Activities	4,829,903	3,440,829	582,254	8,852,986	4,901,988
Cash Flows From Noncapital Financing Activities					
Proceeds From Federal, State, Local Grants	0	82,700	129,821	212,521	0
Deposits	(17,001)	0	0	(17,001)	0
Grant Administration Expenditures	0	(264,218)	(148,298)	(412,516)	0
Transfers In	0	0	0	0	852,067
Transfers Out	(135,400)	(101,749)	(300,000)	(537,149)	(811,704)
Cash Provided by (Used for) Noncapital Financing Activities	(152,401)	(283,267)	(318,477)	(754,145)	40,363
Cash Flows From Capital and Related Financing Activities					
Proceeds From Project Cost Share	268	0	0	268	0
Capital Contributed	1,722,473	128,427	0	1,850,900	0
Proceeds From Sale of Assets and Insurance Recoveries	0	0	0	0	252,633
Proceeds From Capital Grants	0	851,699	0	851,699	0
Proceeds From Loans	150,679	0	0	150,679	0
Principal Payments on Notes, Capital Leases and Bonds	(824,354)	0	0	(824,354)	0
Interest Paid on Notes, Capital Leases and Bonds	(19,804)	0	0	(19,804)	0
Interest Received on Program Loans	32,874	0	0	32,874	0
Acquisition and Construction of Capital Assets	(2,831,630)	(2,755,462)	0	(5,587,092)	(1,793,375)
Cash Provided by (Used for) Capital and Related Financing Activities	(1,769,494)	(1,775,336)	0	(3,544,830)	(1,540,742)
Cash Flows From Investing Activities					
(Increase) Decrease in Investments	(2,696,876)	(1,441,270)	(191,262)	(4,329,408)	(2,988,441)
Interest Revenue	188,680	156,815	6,688	352,183	75,706
Cash Provided by Investing Activities	(2,508,196)	(1,284,455)	(184,574)	(3,977,225)	(2,912,735)
Increase (Decrease) in Cash and Cash Equivalents	399,812	97,771	79,203	576,786	488,874
Cash and Cash Equivalents, January 1	10,155,971	6,311,026	293,789	16,760,786	10,514,313
Prior Period Adjustment (Note 16)	0	0	0	0	88,244
Cash and Cash Equivalents, December 31	10,555,783	6,408,797	372,992	17,337,572	11,091,431

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

City of Kirkland
Statement of Cash Flows

Proprietary Funds
For the fiscal year ended December 31, 2014
Increase in Cash and Cash Equivalents

Page 2 of 2

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Water/Sewer	Surfacewater	Solid Waste	Total	
Reconciliation of Operating Income (Loss) to Cash Provided by Operating Activities					
Operating Income (Loss)	2,628,813	2,326,234	570,037	5,525,084	2,750,937
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by Operating Activities					
Depreciation	2,535,487	1,289,183	0	3,824,670	1,541,696
<u>Changes in Assets and Liabilities</u>					
(Increase) Decrease in Accounts Receivable	(337,707)	(138,174)	25,715	(450,166)	573,508
(Increase) Decrease in Operating Intergovernmental Receivable	(4,544)	0	0	(4,544)	39,722
(Increase) Decrease in Operating Due From Other Funds	5,355	0	0	5,355	0
(Increase) Decrease in Other Accounts Receivable	(13,387)	0	0	(13,387)	0
(Increase) Decrease in Capital Related Accounts Receivable	0	0	0	0	(71,982)
(Increase) Decrease in Operating Inventories	61,778	(12,957)	0	48,821	10,322
(Increase) Decrease in Assessments	(925)	0	0	(925)	0
(Increase) Decrease in Prepayments	(258)	(21,435)	(171)	(21,864)	0
Increase (Decrease) in Capital Accounts Payable	0	0	0	0	99,498
Increase (Decrease) in Operating Accounts Payable	(6,716)	(32,495)	(8,755)	(47,966)	(75,876)
Increase (Decrease) in Claims Payable	0	0	0	0	(11,510)
Increase (Decrease) in Operating Intergovernmental Payable	(54,498)	14,662	(1,132)	(40,968)	(6,985)
Increase (Decrease) in Operating Due to Other Funds	42,320	6,506	(2,302)	46,524	1,542
Increase (Decrease) in Wages Payable	(616)	(366)	1,190	208	9,329
Increase (Decrease) in Compensated Absences Payable	3,117	9,671	(2,328)	10,460	9,487
Increase (Decrease) in Revenue Collected in Advance	(28,316)	0	0	(28,316)	32,300
Cash Provided by Operating Activities	4,829,903	3,440,829	582,254	8,852,986	4,901,988
<u>Noncash Investing, Capital and Finance Activities</u>					
Capital Contributions	2,200,477	3,196,711	0	5,397,188	0
Change in Fair Value of Investments	(67,221)	(41,168)	(2,253)	(110,642)	(43,838)

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

City of Kirkland
Statement of Fiduciary Net Position
Trust and Agency Funds
December 31, 2014

	Firefighter's Pension	Agency Funds
Assets		
Cash and Cash Equivalents	560,224	163,367
Investments, at fair value:		
Government Sponsored Enterprise Securities	927,926	0
Deposits	0	1,838,472
Total Assets	1,488,150	2,001,839
Liabilities		
Current Liabilities		
Accounts Payable	0	0
Due to Other Governments	0	154,231
Deposits	0	1,847,608
Total Liabilities	0	2,001,839
Net Position		
Held in Trust for Pension Benefits	1,488,150	0
Total Net Position	1,488,150	0

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

City of Kirkland
Statement of Changes in Fiduciary Net Position
 Firefighter's Pension Fund
 For the Fiscal Year Ended December 31, 2014

	Firefighter's Pension
Additions	
Contributions:	
Fire Insurance Premium Contributions	97,205
Investment Earnings:	
Net Increase in the Fair Value of Investments	14,415
Total Additions	111,620
Deductions	
Benefit Payments	14,066
OPEB Payments	225,000
Administrative Expenses	8,125
Total Deductions	247,191
Change in Net Position	(135,571)
Net Position Beginning of Year	1,623,721
Net Position End of Year	1,488,150

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

City of Kirkland

Notes to the Basic Financial Statements
For Year Ended December 31, 2014

NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kirkland was incorporated on October 9, 1905, under the provisions of the Washington State Legislature and operates under a Council/City Manager form of government. The Council consists of seven nonpartisan members elected at large every two years to staggered four-year terms. The Mayor is elected from within the Council to serve a two-year term. The City Manager serves as the professional administrator of the City, and is responsible for coordinating all day-to-day operations and administration.

The accounting and reporting policies of the City of Kirkland, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office. The City's significant accounting policies are summarized in the following notes.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14 establishes standards for defining and reporting on the financial reporting entity and for reporting participation in joint ventures. The City's Comprehensive Annual Financial Report includes all funds and organizations that are controlled by or dependent on the City. Control by the City was determined on the basis of budget adoption, taxing authority, and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB Statement 14, the City has no relationships that qualify as component units.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, utility taxes, gambling and admissions taxes, franchise fees, and other material revenue associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City of Kirkland.

The City of Kirkland reports the following major Governmental funds:

General Fund	is the general operating fund of the City. It accounts for all financial resources and transactions of the City not required to be accounted for in another fund. In some documents, this fund is referred to as the Current Expense Fund.
Excise Capital Improvement Fund	accounts for the administration of real estate excise taxes set aside for municipal capital improvements.
General Capital Projects Fund	accounts for the acquisition and construction of capital projects funded from general revenue sources.
Transportation Capital Projects Fund	accounts for the acquisition and construction of transportation related capital projects in which many of the projects are financed through grants.

The City of Kirkland reports the following major Proprietary Funds:

Water/Sewer Operating Fund	accounts for the maintenance, operation, and minor construction of water and sewer systems activity of the Water/Sewer Utility.
Surface Water Management Fund	accounts for the maintenance, operation, and minor appurtenances, including drainage and public retention/detention systems, and related infrastructure activity of the Surface Water Management Utility.
Solid Waste Fund	accounts for all monies collected for solid waste and recycling services, the majority of which are provided through a private contractor.

Additionally, the City of Kirkland reports the following fund types:

Internal Service Funds	account for equipment rental, information technology, facilities services and health benefits provided to other departments of the City on a cost reimbursement basis.
Firefighter's Pension Trust	accounts for a single-employer defined benefit system established under State law to provide retirement and disability benefits for eligible firefighters.
Agency Funds	account for assets held by the city as an agent for private individuals or other governments. The intergovernmental clearing and customer deposit funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

The City complies with all applicable GASB pronouncements and GAAP hierarchy as prescribed by GASB.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are payments in-lieu of taxes and other charges between the government's utility functions and various other functions of the government.

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

The proprietary fund statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utility funds and internal service funds are charges to customers for sales and services, benefit premiums, facility maintenance, technology upgrades, and vehicle replacement. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgetary Data

The City of Kirkland budgets its funds on a cash basis in accordance with the Revised Code of Washington 35A.33. In compliance with the code, budgets for all funds are established. Budgets established for the proprietary funds are considered "management budgets," and as such, are not required to be reported in the Comprehensive Annual Financial Report.

The budget, as adopted, constitutes the legal authority for expenditures. Appropriations are authorized for two years, but must be reviewed by the City Council at the midpoint of the biennial period. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the legislative authority. The City's budget is generally amended four times during the biennial period. The financial statements present the amended budgetary information as approved. All appropriations, except for capital projects, lapse at the end of the biennial period. Unexpended resources must be re-appropriated in the subsequent period.

Procedures for Adopting the Original Budget

The budget process and the time limits under which a budget must be developed are established by State law. The City follows the procedures outlined below in the year preceding the first year of the two-year budget to establish its biennial budget:

1. By late June, the City Manager requests budget priority input from the City Council.
2. By July, the official "budget call," as required by State law, is made to all department directors or fund managers by the City Manager and Director of Finance and Administration. Computerized budget worksheets, instructions, and materials are provided to the departments at that time.
3. Department/fund budget requests, on a line item basis, are submitted to the Director of Finance and Administration by late August.
4. Revenue estimates are developed and updated by the Finance and Administration Department throughout the budget process. Initial revenue estimates are prepared by late August.
5. During September, the Director of Finance and Administration meets with the City Manager to formulate budget strategy, goals, objectives, and ultimately recommendations. These recommendations are discussed with department management. By late October, a final budget proposal is agreed upon by the City Manager and all department directors.
6. A Preliminary Budget is prepared, printed, and filed with the City Clerk by November 1. It is presented to the City Council. Copies are made available to the public.
7. At least two public budget hearings are held; one in September and one in November. Public comment is received on revenue sources at the September hearing and on recommended programs and/or ideas for new programs at the November hearing.
8. The City Council meets in October/November for a series of budget discussion/review sessions to determine if there are any alterations that they wish to make to the City Manager's recommended budget.
9. Prior to the beginning of the next calendar year, the City Council, by simple majority of members present, adopts the final budget by ordinance.
10. The final budget is generally published during the first quarter of the following year, distributed to staff, and made available to the public.

Amending the Budget

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority.

The financial statements contain the original budget and budget information as of the financial statement report date. The original budget is the first complete appropriated budget. The final budget reflects any adjustments to the original budget, such as uses of or additions to reserves, transfers, allocations, supplemental appropriations, carryovers, and other legally authorized changes applicable for the fiscal period.

Assets, Liabilities, Fund Balance and Net Position

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. Amounts are reported on the Balance Sheet as either Cash and Cash Equivalents or Investments. Cash and Cash Equivalents include currency on hand, demand deposits, and investments in the State Treasurer's Investment Pool. Per KMC 5.24.010, the City has established an investment committee consisting of the City Manager and the Director of Finance and Administration. The City's investment committee is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, the State Investment Pool, and in other investments authorized by law. City policy requires that all investments be purchased DVP (delivery vs. payment). Securities are held in safekeeping by a third-party custodian.

The City places available cash in a common investment fund. On an annual basis, interest earned on the City's common investment fund, less earmarked expenditures and all costs incurred in the administration of the common investment fund, are credited to the participating funds by determining annual average investment balance by the participating fund.

In accordance with GASB 31, investments are stated at fair value.

Receivables

The City of Kirkland recognizes receivables in its various funds based on the accounting basis required for that fund. These receivables include the following:

Property Taxes	Uncollected property taxes levied for the current year are reported as receivables at year-end. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore, no allowance for uncollectible taxes is recorded.
Sales Tax	Sales Tax collected for November and December but not remitted by the state until the following year, are reported as receivables at year-end.
Other Taxes	Utility, Gambling, Admission Taxes, and Franchise Fees remitted after the end of the year for activity occurring during the prior year are reported as receivables at year-end.
Accounts Receivable	Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services provided, including amounts owed for which billings have not yet been prepared.

Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes, and charges for services.

Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Purchases of materials and supplies are recorded as expenditures at the time of purchase in governmental funds; therefore, ending inventories are not reported on governmental fund balance sheets. These amounts are not considered material.

In proprietary funds a periodic inventory is maintained, in which the cost is capitalized when the inventory item is purchased and expensed when the item is consumed. The average cost valuation method which approximates market is used to value the inventory. A physical inventory is taken at year-end.

Restricted Assets and Liabilities

These accounts contain resources reserved for customer deposits.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of 2 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets acquired through annexation in 2011 were recorded at estimated fair market value.

On January 2, 2014, under an interlocal agreement, the ownership of distribution facilities formerly served by the City of Redmond were transferred to the City of Kirkland. This service area is within the City of Kirkland. As a result of the transfer, the City recorded water mains with a carrying value of \$395,254 and additional net investment in capital assets. This value was reduced by \$56,034 to reflect a consistent method of accounting with other City assets. Additional assets were transferred but were either below our capitalization threshold or were fully depreciated and had no carrying value.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land, construction in progress, and works of art are not depreciated. Infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Improvements	5 - 50
Equipment	5 - 20
Infrastructure	7 - 100
Water Lines	20 - 60

Compensated Absences

The City records a liability for accumulated unused vacation leave and salary related payments associated with the payment of vacation leave. All vacation leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation leave is accumulated monthly at annual rates ranging from 104 hours to 300 hours depending on number of years of employment and union agreement. Earned vacation leave in excess of the established

limits and not used within the year following its accrual will be forfeited without any severance pay or additional compensation. All outstanding vacation leave is payable upon resignation, retirement, or death, to all employees having completed probation except under special conditions listed in the Kirkland Municipal Code.

Sick leave is accrued at a rate of 8 hours for each month of the employee's service, or the equivalent of a 24 hour shift for fire employees. Unused sick leave may be accumulated from year to year to a maximum of 180 days. Fire and police employees who entered the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) prior to October 1, 1977, do not accumulate sick leave, because they have unlimited disability coverage under state retirement law. Any outstanding sick leave is lost at termination of employment.

In January 1985, the City Council passed Ordinance 2844 wherein Section 10F eliminated an employee's ability to cash out any unused sick leave upon resignation or retirement. At this time, certain bargaining units were given the option to freeze their unused sick leave to be paid at 1984 wage rates upon resignation or retirement. There is one employee currently employed by the City who chose to freeze the unused sick leave for a total of \$407 benefits payable.

In 2005, contracts with public safety bargaining units under the LEOFF II Retirement System agreed to allow conversion of accrued sick leave to a retiree medical account upon retirement from the City. Upon normal or disability retirement, the City is responsible to contribute an amount equal to fifty percent of the cash value of the employee's sick leave balance into a trust fund to be used for the retiree's health related expenses. Contribution amounts may not exceed \$11,000 for 2014.

Outstanding sick leave at year end for all other employees is not accrued, because payment cannot be deemed probable nor can the amount be reasonably estimated.

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Unearned Revenues

Unearned revenues are receivables that are measurable but not yet available in the governmental funds financial statements. Accordingly, they are not recorded as revenue. The balance sheet records the receivable but includes an unearned revenue as the offset. The unearned revenues include leases and business license fees collected in 2014 for 2015.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Net Position

In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance

In the fund financial statements, governmental funds report fund classification that comprise a hierarchy based on the extent to which the City is bound to honor constraints on how the amounts in those funds can be spent. Amounts that are restricted by specific purposes stipulated by external resource providers, imposed by law through constitutional provisions or enabling legislation are classified as restricted fund balance. The committed fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision making authority. The City Council is the highest level of decision making authority and by adoption of an ordinance prior to year end can commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.

Amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Assignments are made by the City Manager or Finance Director as part of the budget process based on Council direction or as part of fiscal policies adopted by City Council Resolution. Non-spendable fund balances include amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. Unassigned fund balance represents a residual classification for the general fund and includes all amounts not contained in the other classifications. These amounts are technically available for any purpose.

In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements the City assumes a certain flow assumption. The City considers a restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Committed fund balance is depleted next, followed by assigned fund balance. Unassigned fund balance is applied last.

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

Explanation of aggregated differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position.

The Governmental Funds Balance Sheet includes a reconciliation between total fund balance and total net position as reported in the Government-Wide Statement of Net Position. The details of the aggregated differences are presented below.

Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds:

Municipal Court	1,932,004
Negative Net Pension Obligation	909,065
Deferred Charges/Discount	322,801
Bond Subsidy	45,732
Net Adjustment	<u>\$3,209,602</u>

Some liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable	41,755,287
Compensated Absences	2,827,385
Net OPEB Obligation	3,842,397
Accrued Interest Payable	159,898
Deferred Charges/Premium	141,555
Net Adjustment	<u>\$48,726,522</u>

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value:

Capital Assets	973,688,271
Depreciation	(151,341,541)
Net Capital Assets Adjustment	<u>\$822,346,730</u>

Explanation of aggregated differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances for governmental funds and changes in net position of governmental activities as reported in the Government-Wide Statement of Activities. The details of the aggregated differences are presented below.

Governmental funds report capital outlays as expenditures. The Statement of Activities allocates the cost of capital outlay over their estimated useful lives as depreciation.

Capital Outlays	22,545,900
Depreciation Expense	(10,002,446)
Contributed Infrastructure	7,263,840
Sale of Building	(3,145,523)
CIP Closures	(534,686)
Net Adjustment	<u>\$16,127,085</u>

The proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. Repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Position.

Debt Retired	2,537,949
Bond (Premium) Discount	8,005
Net Adjustment	<u>\$2,545,954</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Municipal Court Receivable	(36,069)
Negative Pension Obligation	(73,777)
Bond Subsidy	(3,945)
Net Adjustment	<u>(\$113,791)</u>

Expenditures in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in governmental funds:

Net OPEB Obligation	(532,798)
Compensated Absence Payable	(39,633)
Accrued Interest Payable	14,598
Net Adjustment	<u>(\$557,833)</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

The City of Kirkland's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash held in the Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). This pool represents an interest in a group of securities and has no specific security subject to custodial risk. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investments

All surplus cash is invested in accordance with an investment policy approved by Kirkland City Council. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments which the City held at year end include Government Sponsored Enterprises (GSE's) securities, US Agency backed securities, Washington State Local Government Investment Pool, obligations of state and local government agencies, and FDIC and PDPC Insured Bank Deposits. The fair value of the City's position in the Washington State Local Government Investment Pool is the same as the value of the pool shares.

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by the City of Kirkland on December 31, 2014 are listed below:

<u>Issuer</u>	<u>Rating Agency</u>	<u>Credit Rating</u>
U.S. Treasury, U.S. Agencies and GSE's	Standard & Poor's Moody's	AA+ Aaa
Clackamas & WA Cnty OR JT SD#3	Standard & Poor's Moody's	AA+ Aa2
Clackamas & WA Cnty OR Sch Dist #62C	Standard & Poor's Moody's	AA+ Aa2
Marion & Polk Cntys OR SD #24J	Moody's	Aa2
Seattle Museum	Moody's Standard & Poor's	Aa1 AAA

The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Kirkland would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's Investment Policy requires that all security transactions entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis and will be held in safekeeping by a third party custodian. All of the City's securities at year end were held in safekeeping by a third party custodian and are not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the City's policy to diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 3 years. The portfolio weighted maturity at year end was 1.44 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2014 was 43 days.

City of Kirkland Cash, Deposits and Investments
Segmented Time Distribution
At December 31, 2014

Cash and Investment Type	Fair Value*	6 Months or Less	7 to 12 Months	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months
Federal Agricultural Mortgage Corporation callable	1,203,761			1,203,761			
Federal Farm Credit Bank bullet	14,932,720			9,974,220	4,958,500		
Federal Farm Credit Bank callable	4,933,240				4,933,240		
Federal Home Loan Bank bullet	4,944,120			4,944,120			
Federal Home Loan Bank callable	4,941,800					4,941,800	
Federal Home Loan Mortgage Corporation bullet	9,956,935			5,011,015		4,945,920	
Federal Home Loan Mortgage Corporation callable	9,965,340			9,965,340			
Federal National Mortgage Association bullet	4,980,155			4,980,155			
Federal National Mortgage Association callable	4,996,035				4,996,035		
US Treasury Notes	16,983,594			7,023,830	9,959,764		
US Agency Backed - Aid-Israel Strips	3,518,698			3,518,698			
Clackamas & Washington Cnty OR JT SD#3	6,270,361		3,891,789	2,378,572			
Clackamas & Washington Cnty OR Sch Dist #62C	6,128,553				6,128,553		
Marion & Polk Cntys OR SD #24J	4,990,250			4,990,250			
Seattle Museum Development Authority	1,138,258 *			1,138,258			
Opus Bank CD	8,018,692		8,018,692				
Umpqua Bank CD	5,000,000	5,000,000					
	\$ 112,902,512	5,000,000	11,910,481	55,128,219	30,976,092	9,887,720	0
Uncategorized Cash and Deposits							
Fire District #41 Funds held by King County	35,593						
Washington State Local Government Investment Pool	22,823,656						
FDIC or PDPC Insured Bank Deposits	24,444,413						
Cash on Hand	19,500						
	\$ 47,323,163						
Total Cash, Deposits and Investments	\$ 160,225,675						

The callable bonds are assumed not to be called as interest rates have risen following the purchase of the bond.

*Investments are presented at fair value reduced by amortized cost.

NOTE 4: PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on a daily basis.

Property Tax Calendar:

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

Assessed values are established by the County Assessor at 100 percent of fair market value. At a minimum, real property must be revalued every four years. King County began an annual revaluation program in 1995.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred inflows of resources and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. Kirkland's maximum property tax levy rate has been reduced from \$3.60 to \$3.10 due to annexation to the King County Library District.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The City's regular tax levy in 2014 was \$1.65893 per \$1,000 on an assessed valuation of \$15,774,360,007 for a total regular levy of \$26,168,501. The excess tax levy, which only applies in the pre-annexation boundaries, was \$0.05778 per \$1,000 for an excess levy of \$656,958. Excess tax levies approved by the voters are not subject to the above limitations.

**NOTE 5:
CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2014, was as follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	589,056,379	1,808,936	1,300,966	589,564,349
Construction in Progress	45,275,696	22,541,982	4,339,559	63,478,119
Artwork	1,648,921	65,700	0	1,714,621
Total Capital Assets, Not Being Depreciated	\$ 635,980,996	24,416,618	5,640,525	\$ 654,757,089
Capital Assets, Being Depreciated:				
Buildings	39,521,861	553,914	1,399,615	38,676,160
Improvements	36,399,823	299,197	1,308,493	35,390,527
Machinery and Equipment	18,862,412	1,798,680	1,289,472	19,371,620
Infrastructure	234,972,474	8,247,809	0	243,220,283
Total Capital Assets, Being Depreciated	\$ 329,756,570	10,899,600	3,997,580	\$ 336,658,590
Less Accumulated Depreciation for:				
Buildings	12,816,894	918,938	139,961	13,595,871
Improvements	16,441,796	2,575,330	714,058	18,303,068
Machinery and Equipment	10,610,240	1,642,372	1,222,752	11,029,860
Infrastructure	111,938,224	6,407,502	0	118,345,726
Total Accumulated Depreciation	\$ 151,807,154	11,544,142	2,076,771	\$ 161,274,525
Total Capital Assets, Being Depreciated, Net	\$ 177,949,416	(644,542)	1,920,809	\$ 175,384,065
Governmental Activities Capital Assets, Net	\$ 813,930,413	23,772,076	7,561,334	\$ 830,141,154
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	2,025,871	0	0	2,025,871
Construction in Progress	9,686,332	6,462,968	1,592,566	14,556,734
Total Capital Assets, Not Being Depreciated	\$ 11,712,203	6,462,968	1,592,566	\$ 16,582,605
Capital Assets, Being Depreciated:				
Buildings	47,591	0	0	47,591
Improvements	187,096,179	6,915,342	1,577	194,009,944
Total Capital Assets, Being Depreciated	\$ 187,143,770	6,915,342	1,577	\$ 194,057,535
Less Accumulated Depreciation for:				
Buildings	47,591	0	0	47,591
Improvements	54,103,328	3,824,670	1,546	57,926,452
Total Accumulated Depreciation	\$ 54,150,919	3,824,670	1,546	\$ 57,974,043
Total Capital Assets, Being Depreciated, Net	\$ 132,992,851	3,090,672	31	\$ 136,083,492
Business-type Activities Capital Assets, Net	\$ 144,705,054	9,553,640	1,592,597	\$ 152,666,097

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

Governmental Activities	
General Government	1,634,092
Judicial	111,974
Security of Persons and Property	1,468,735
Physical Environment	758,416
Transportation (includes depreciation of general infrastructure assets)	6,414,594
Economic Environment	8,421
Culture and Recreation	1,147,910
Governmental Activities Depreciation Expense	<u>\$ 11,544,142</u>

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets as allocated above.

Business-type Activities	
Water/Sewer Utility	2,535,487
Surface Water Utility	1,289,183
Solid Waste Utility	0
Business-type Activities Depreciation Expense	<u>\$ 3,824,670</u>

Construction Obligations

The City of Kirkland has active construction projects as of December 31, 2014. The projects include:

<u>Project Function</u>	<u>Expenditures to Date</u>	<u>Remaining Commitment</u>
Public Safety	24,467,928	533,319
Sewer Utility	407,415	1,055,215
Surface Water Utility	2,443,183	378,850
Transportation	11,425,769	9,857,261
Total	<u>\$ 38,744,295</u>	<u>\$ 11,824,645</u>

NOTE 6: PENSION PLANS

State Systems

Substantially all city full-time employees and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

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

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

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

PERS Plan 1 and Plan 2 defined benefit 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 2014, 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.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced.

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with 5 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 3 percent annually.

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

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

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of

salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

For DRS' fiscal year 2014, PERS Plan 3 employee contributions were \$105.2 million, and plan refunds paid out were \$81.9 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

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

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefits retirement benefits are also actuarially reduced to reflect the choice of a survivor option.

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

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

A onetime 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 said member's covered employment, if found eligible by the Department of Labor and Industries.

Judicial Benefit Multiplier

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

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

There are 634 participating employers in PERS Plan 1, 934 in PERS Plan 2, and 673 in PERS Plan 3. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	107,073
Active Plan Members Non-vested	<u>43,633</u>
Total	267,081

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

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

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

*** Plan 3 defined benefit portion only.

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

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

Members Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%	9.21%	9.21%**
Employee	12.26%	12.30%	7.50%***

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

** Plan 3 defined benefit portion only.

*** Minimum rate.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>	<u>JBM – PERS Plan 1</u>
2014	\$32,531	\$1,916,487	\$345,094	\$12,757
2013	\$39,015	\$1,578,708	\$297,982	\$11,008
2012	\$32,126	\$1,215,845	\$226,215	\$ 9,679

Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

The Legislature established LEOFF in 1970. LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants 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. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employee and employer contributions, and a special funding situation in which the state pays through state

legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2014, 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:

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

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

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

A one-time duty-related death benefit is provided to the beneficiary or 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 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty related and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic 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 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums. Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

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

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

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

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

There are 45 participating employers in LEOFF Plan 1, and 369 in LEOFF Plan 2. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	14,532
Active Plan Members Non-vested	<u>2,298</u>
Total	28,040

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. 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 LEOFF Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2014, the state contributed \$55.6 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, 2014, are as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	n/a	3.36%

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

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2014	\$ 125	\$1,072,622
2013	\$ 194	\$1,040,668
2012	\$ 171	\$ 922,331

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. 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 Plan 2 membership includes PERS 2 or 3 employees of a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006, to September 30, 2006; and those 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 the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board;
- Washington state counties;
- Washington state cities except for Seattle, Tacoma and Spokane;
- 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 one of the following:

- 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.
- Primary responsibility to ensure the custody and security of incarcerated or probationary individuals.
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020.
- 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 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire 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, with a benefit of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

A one-time duty related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of 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, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	2,784
Active Plan Members Non-vested	<u>1,729</u>
Total	4,675

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. All employers are required to contribute at the level established by the Legislature. 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, 2014, are as follows:

	<u>PSERS Plan 2</u>
Employer*	10.54%
Employee	6.36%

* 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:

	<u>PSERS Plan 2</u>
2014	\$109,762
2013	\$90,974
2012	\$71,769

Volunteer Firefighters' Relief and Pension Fund

The Volunteer Firefighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. Members may elect to withdraw their contributions upon termination.

Firefighters' Pension

The City of Kirkland is the administrator of the Firefighters' Pension Plan which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. This plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All benefits and refunds of the plan are recognized when due and payable in accordance with the terms of the plan. Membership is limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was established. The City's liability under the system is composed of all benefits for firefighters retired prior to March 1, 1970, and excess benefits over LEOFF for covered firefighters retired after March 1, 1970. No separate financial report is issued for the plan. Accordingly, the required supplemental information is included in this note.

A five person Pension Board is created to oversee the benefits for LEOFF 1 retirees. The Board consists of one elected official of the City, two regularly employed and two retired firefighters.

Under State law, the Firefighters' Pension Plan is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums. Other funding sources include interest earnings, member contributions made prior to the inception of LEOFF, and City contributions required to meet projected future pension obligations. Neither member nor employer contributions were made to the plan during the year as the actuary has determined that the current assets of the fund, along with future revenues from state fire insurance taxes and interest earnings will be sufficient to pay all future Firefighters' Pension Plan pension benefits.

Due to the small number of participants, the City recognizes no direct administrative costs with the exception of biennial valuation costs which are paid from assets of the fund.

Membership of the Firefighters' Pension Plan consisted of the following on December 31, 2014:

Retirees and beneficiaries receiving benefits	5
Active plan members	0

It has been determined by the City that GASB 67 applies to this pension plan and thus disclosures and Required Supplementary Information are being provided in conjunction with the new standards.

Investment procedures and policies can be found in Note 3: Deposits and Investments.

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during the period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow each month. The money-weighted rate of return is calculated net of investment expenses.

	Fiscal Year Ending December 31	Net Money-Weighted Rate of Return		
	2005	N/A		
	2006	N/A		
	2007	N/A		
	2008	N/A		
	2009	N/A		
	2010	N/A		
	2011	N/A		
	2012	N/A		
	2013	N/A		
	2014	0.87%		

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows with Interest
Beginning Value -January 1, 2014	\$1,623,721	12.00	1.00	\$1,637,834
Monthly Net External Cash Flows:				
January	(1,162)	12.00	1.00	(1,172)
February	(1,162)	11.00	0.92	(1,172)
March	(1,162)	10.00	0.83	(1,171)
April	(1,176)	9.00	0.75	(1,183)
May	96,029	8.00	0.67	96,588
June	(9,301)	7.00	0.58	(9,347)
July	(1,176)	6.00	0.50	(1,181)
August	(1,176)	5.00	0.42	(1,180)
September	(1,176)	4.00	0.33	(1,179)
October	(1,176)	3.00	0.25	(1,178)
November	(1,176)	2.00	0.17	(1,177)
December	(226,176)	1.00	0.08	(226,332)
Ending Value – December 31,2014	1,488,150			1,488,150
Money-Weighted Rate of Return	0.87%			

Net Pension Liability

The components of the net pension liability at December 31, 2014, were as follows:

	December 31, 2013	December 31, 2014
Total Pension Liability	\$363,000	\$371,647
Fiduciary Net Position	\$1,623,721	\$1,488,150
Net Pension Liability	\$(1,260,721)	\$(1,116,503)
Fiduciary Net Position as a % of total pension liability	447.31%	400.42%
Covered Payroll	0	0
Net Pension Liability as a % of covered payroll	N/A	N/A

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by Governmental Accounting Standard's Board Statement 67.

Rates

	December 31, 2013	December 31, 2014
Discount Rate	3.75%	3.50%
Long term expected rate of return, net of investment expense	3.75%	3.50%
Municipal bond rate	N/A	3.50%

The plan's fiduciary net position, along with expected future contributions, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Other key actuarial assumptions

Valuation Date	January 1, 2014	January 1, 2014
Measurement Date	December 31, 2013	December 31, 2014
Inflation	2.5%	2.5%
Salary increases including inflation	3.5%	3.5%
Mortality	RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members)	RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members)
Actuarial cost method	Entry Age Normal	Entry Age Normal

Annual Pension Costs and Net Pension Obligation changes at December 31:

	2012	2013	2014
Annual Required Contribution (ARC)	0	0	0
Annual Normal Cost – Beginning of Year	0	0	0
Amortization of Unfunded Actuarial Liability (UAL) – Beginning of Year	(93,836)	(93,836)	(97,978)
Interest to End of Year	(3,753)	(3,753)	(3,674)
ARC at End of Year	(97,589)	(97,589)	(101,652)
Interest on Net Pension Obligation (NPO)	(35,513)	(41,101)	(36,857)
Adjustment to ARC	(64,999)	(78,046)	(76,366)
Annual Pension Cost (APC)	(68,103)	(60,644)	(62,143)
Employer Contributions	71,592*	(105,331)	(135,920)
Change in NPO	(139,695)	44,687	73,777
NPO at Beginning of Year	(887,834)	(1,027,529)*	(982,842)
NPO at End of Year	(1,027,529)*	(982,842)	(909,065)

The negative net pension obligation has been recorded as a receivable on the City's government-wide statement of net position.

* This amount has been updated since 2012 following a 1/1/2013 pension valuation.

Schedule of Employer Contributions

Year Ended December 31	Actuarially Determined Contribution	Actual Employer Contribution*	Contribution Deficiency (Excess)	Covered Payroll	Contribution As a % of Covered Payroll
2005	0	43,497	(43,497)	\$79,000	55.06%
2006	0	47,911	(47,911)	84,000	57.04%
2007	0	68,210	(68,210)	84,000	81.20%
2008	0	70,929	(70,929)	90,000	78.81%
2009	0	67,634	(67,634)	90,000	75.15%
2010	0	66,934	(66,634)	0	N/A
2011	0	77,880	(77,880)	0	N/A
2012	0	71,592	(71,592)	0	N/A
2013	(105,331)	(105,331)	0	0	N/A
2014	(127,795)	(127,795)	0	0	N/A

*Employer contributions for pensions are total contributions to the fund net of disbursements from the fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions.

Schedule of Funding Progress:

Valuation Date	Actuarial Value of Assets \$ (in thousands)	Actuarial Accrued Liabilities Entry Age \$ (in thousands)	Unfunded Actuarial Accrued Liabilities \$ (UAAL)	Funded Ratio %	Covered Payroll \$ (in thousands)	UAAL as a Percentage of Covered Payroll %
1/1/2001	901	385	(516)	234	73	(707)
1/1/2004	1,015	547	(468)	186	79	(592)
1/1/2006	1,090	533	(557)	205	84	(663)
1/1/2008	1,305	469	(836)	278	90	(929)
1/1/2010	1,527	420	(1,107)	364	0	N/A
1/1/2012	1,678	396	(1,282)	424	0	N/A
1/1/2014	1,624	363	(1,261)	447	0	N/A

Three Year Trend Information (in dollars):

Fiscal Year Ending	Annual Pension Cost (APC) \$	Contributions as a Percentage of APC %	Net Pension Obligation (NPO) \$
12/31/12	(68,103)	NA	(1,027,529)*
12/31/13	(60,644)	NA	(982,842)
12/31/14	(62,143)	NA	(909,065)

The information presented in the preceding required schedule was determined as part of the actuarial valuations at the dates indicated or based on the same set of actuarial assumptions.

Actuarial cost method for all years:	Entry Age Normal Cost Method ⁽¹⁾
Amortization period:	UAAL amortized over a closed 30yr period, as of January 1, 2001 and an open 30 year period prior to January 1, 2001.
Asset valuation method:	Market value
Cost-of-living adjustments for all years:	CPI, Seattle-Everett area

Actuarial economic assumptions:	
Investment rate of return	3.75%
Projected salary increases ⁽²⁾	3.50%
Consumer Price Index	2.50%
Projected annual growth in fire Insurance premium tax revenue	2.50%

- (1) The Entry Age Cost Normal method was used to comply with GASB 25 and 27 reporting requirements. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by the future Normal Cost payments is called the Actuarial Liability. Since nearly all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the Fund's assets.
- (2) Projected salary increases are for future inflation only. Since the members have at least 20 years of service, no merit increases are assumed.

Since the fund is closed to additional participants and is fully funded, the City does not perform an actuarial study on a yearly basis.

Municipal Employees Benefit Trust

The Municipal Employees' Benefit Trust (MEBT) is a multiple-employer defined-contribution pension plan which was established as an alternative to the federal Social Security System. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418(g), effective January 1, 1975. Employees who work 1,000 or more hours per year are eligible but not required to participate in the plan. There were 827 employees who participated in the program during 2014, including seasonal employees. The City's contribution for 2014 was \$2,634,260; employee contributions were \$3,335,283 during the same period. The rate the City must pay and the employee may pay is equal to the Social Security rate of 6.2%.

Assets of the Plan consist of stocks, bonds, and guaranteed insurance contracts, and are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered by the Plan Committee consisting of two members selected by the City and three members elected by plan members. The Plan Committee administers the MEBT Plan according to the Plan Document adopted by the City and all applicable IRS regulations. Plan provisions may be established or amended by a majority vote of the Plan Committee.

Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with the Standard Insurance Company, and (2) each participant shall at his normal retirement instruct the trustee to either (a) acquire a nonforfeitable, non-transferable annuity contract, (b) pay the retirement benefits from the employee's deferred saving account to which no contribution by the City or the participant can be added after retirement, or (c) pay a single lump-sum payment equal to the accumulated balance in the employee's deferred saving account as of his retirement date.

**NOTE 7:
OTHER POST EMPLOYMENT BENEFITS**

The City of Kirkland provides post-retirement health care benefits to LEOFF 1 retirees in accordance with RCW 41.26. Membership is limited to public safety personnel hired prior to March 1, 1970. All members' medical, hospital, dental and nursing care are covered at the discretion of the Retirement Board. At the end of 2014 there were 35 retirees receiving these benefits.

For 2014, the City's cost of providing these benefits were as follows:

Medical premiums:	Insurance Premium Costs	\$ 566,739
	Direct Medical Costs	<u>76,431</u>
	Total Costs	<u>\$ 643,170</u>

Funding for LEOFF retiree healthcare costs is provided entirely by the City on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2006. The following table shows the City's annual OPEB cost for 2012, 2013 and 2014. The date of the last actuarial valuation done by Milliman was January 1, 2008. Beginning in 2009, the OPEB liability was calculated using the Alternative Measurement Method for GASB 45 by the Office of the State Actuary for the State of Washington. The net OPEB obligation of \$3,842,397 is included as a noncurrent liability on the Statement of Net Position.

Determination of Annual Required Contribution	12/31/2012	12/31/2013	12/31/2014
Normal Cost at Year End	12,027	18,243	0
Amortization of UAAL	950,776	1,402,653	1,341,253
Annual Required Contribution (ARC)	\$962,803	\$1,420,895	\$1,341,253
Determination of Net OPEB Obligation			
Annual Required Contribution	\$962,803	\$1,420,895	\$1,341,253
Interest on Prior Year Net OPEB Obligation	104,593	105,678	132,384
Adjustments to ARC	(216,423)	(237,620)	(297,669)
Annual OPEB Cost	850,973	1,288,953	1,175,968
Contributions Made	533,319	621,307	643,170
Increase in Net OPEB Obligation	\$317,654	\$667,646	\$532,798
Net OPEB Obligation - beginning of year	\$2,324,299	\$2,641,953	\$3,309,599
Net OPEB Obligation – end of year	\$2,641,953	\$3,309,599	\$3,842,397

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013 and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$850,973	62.7%	\$2,641,953
12/31/2013	\$1,288,953	48.2%	\$3,309,599
12/31/2014	\$1,175,968	54.7%	\$3,842,397

Funding Status and Funding Progress

As of December 31, 2014, the plan was 0% funded. The accrued liability for benefits was \$14,912,571 and actuarial value of assets was \$0 resulting in a UAAL of \$14,912,571.

The City pays medical costs associated with the benefits described above on a pay-as-you-go basis. The City has funded \$618,079 of the liability in a reserve account and continues to set aside funding as the opportunity arises. This amount is not reflected in the actuarial value due because the funds are not in a separate trust fund.

Actuarial Assumptions

The actuarial assumptions are intended to estimate future experience of the members. Since our last valuation, both economic and demographic assumptions have been changed. The demographic assumptions were updated to reflect the latest experience for the Law Enforcement Officers' and Firefighters Retirement System prepared by the State Actuary.

Replacement of Terminated Members: The City's Firefighter's Pension and LEOFF 1 are closed groups. No new members are permitted.

Valuation of Assets: As of the valuation date, there are no assets set aside to pay for these benefits.

Beginning in 2009, the City used the alternative measurement method permitted under GASB Statement 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011, actuarial valuation report issued by the Office of the State Actuary. Healthcare costs and trends were determined by Milliman and used by the Office of the State Actuary in the state-wide LEOFF 1 medical study performed in 2013. The results are based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

A required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the decrease in plan assets relative to the actuarial accrued liability for benefits.

NOTE 8: RISK MANAGEMENT

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

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

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

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

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

No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2014.

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

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

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

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

Medical Self Insurance

On January 1, 2011 the City became self insured for medical insurance. The Medical Self Insurance Internal Service Fund accounts for the disbursement of actual medical and prescription claims, associated administrative costs, and reserves for the self insured program. Rates for the initial implementation year were established based upon industry averages and trends. In subsequent years the rates will be based upon historical data as well as market trends.

In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance. There were three claims in excess of the \$100,000 per person stop loss maximum in 2014. In accordance with GASB Statement 10, estimated liabilities are accrued for current outstanding claims and claims incurred but not reported (IBNR).

	Beginning Of Year <u>Liability</u>	Incurred Claims Including <u>IBNRs</u>	Claim <u>Payments</u>	Unpaid <u>Claims</u>
2012	\$ 503,643	\$ 6,316,315	\$ 6,208,928	\$ 611,030
2013	\$ 611,030	\$ 6,379,496	\$ 6,388,631	\$ 601,895
2014	\$ 601,895	\$ 7,159,200	\$ 7,170,710	\$ 590,385

NOTE 9: LONG-TERM DEBT

General Obligation Bonds are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service Funds. Debt service for voter approved issues is funded with special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and other general government revenues. These bonds are subject to federal arbitrage rules.

Revenue bond indebtedness issued to fund proprietary activities is recorded in the proprietary fund. Debt service payments are made from revenues generated by the proprietary fund.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. The City currently has five loans with principal outstanding of \$1,573,313. This debt will be repaid from Water/Sewer Fund revenues.

On December 21, 2010, the City issued \$35,345,000 in Limited Tax General Obligation Bonds (Build America Bonds – Direct Payment) with a net interest cost of 3.53 percent and final payment on December 1, 2040. The federal subsidy rate on the bonds is 35 percent of the interest paid by the issuer (ie: the City). The proceeds from these bonds are being used to pay the costs of reimbursing previously incurred capital expenditures (designated for reimbursement) associated with the purchase of property, improvements and modifications for use as a public safety facility for the City and refurbishing and furnishing the public safety facility. On Friday, March 1, 2013, the sequestration provisions of the Budget Control Act of 2011 (“Sequestration”) went into effect. As a result, in 2014 the federal subsidy payments relating to Direct-Pay Tax Credit Bonds were reduced by 7.3 percent of the amount that would otherwise have been paid to the issuer. The sequestration reductions are scheduled to continue through 2023. The estimated 2015 reduction is 7.2%. An estimated reduction of 7.2% will be used for years through 2023.

**Limited Tax General Obligation Bonds, 2010
(Taxable Build America Bonds-Direct Payment)**

Year Ending December 31	Principal	Gross Interest	Interest Subsidy	Net Totals
2015	990,000	1,691,415	548,779	2,132,636
2016	1,010,000	1,669,635	541,713	2,137,922
2017	1,030,000	1,641,860	532,701	2,139,159
2018	1,045,000	1,610,960	522,676	2,133,284
2019	1,070,000	1,575,430	511,149	2,134,281
2020-2024	5,090,000	7,248,515	2,386,587	9,951,928
2025-2029	5,835,000	5,985,685	2,536,980	9,283,705
2030-2034	6,955,000	4,271,713	2,094,990	9,131,723
2035-2039	8,375,000	2,078,291	727,402	9,725,889
2040	1,870,000	111,265	38,943	1,942,322
Total	\$ 33,270,000	\$ 27,884,769	\$ 10,441,920	\$ 50,712,848

On May 26, 2011, Fire Protection District 41 issued \$4,000,000 Limited Tax General Obligation Bonds, 2011 at an interest rate of 3.2% and final payment on December 1, 2021. The bonds were issued to finance

the Fire Station Consolidation Project. On June 1, 2011 Fire Protection District 41 dissolved when the City of Kirkland annexed all the territory served by the District. The outstanding debt remained an obligation of the taxable property which was annexed and therefore became the obligation of the City of Kirkland.

General obligation bonds for governmental activities currently outstanding are as follows:

Issue - Purpose	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2014	Due Within One Year
*2010 LTGO Limited Tax General Obligation Bonds, 2010 (Taxable Build America Bonds-Direct Payment)	12/21/2010	12/1/2040	0.90 to 5.95	35,345,000	2,075,000	33,270,000	990,000
*2011 Limited Tax General Obligation Bond	5/26/2011	12/1/2021	3.2	4,000,000	1,069,713	2,930,287	379,817
*2011 Limited Tax General Obligation Refunding Bonds	9/2/2011	12/1/2021	1.2	4,255,000	2,830,000	1,425,000	205,000
2013 UTGO Refunding Bonds	10/29/2013	12/1/2022	2.3	4,670,000	540,000	4,130,000	475,000
Total				\$ 48,270,000	\$ 6,514,713	\$41,755,287	\$ 2,049,817

*Councilmanic

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2015	2,049,817	1,915,760
2016	2,102,069	1,866,703
2017	2,154,715	1,810,812
2018	2,202,770	1,748,827
2019	2,246,246	1,681,262
2020-2024	7,964,670	7,363,069
2025-2029	5,835,000	5,985,685
2030-2034	6,955,000	4,271,713
2035-2039	8,375,000	2,078,291
2040	1,870,000	111,265
Total	\$ 41,755,287	\$ 28,833,387

The revenue debt, issuance, redemption and current balance outstanding are as follows:

Issue - Purpose	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2014	Due Within One Year
1995 Public Works Trust Loan Lake Shore Plaza Lift Station	6/7/1995	7/1/2015	1	794,850	750,328	44,522	44,522
1999 Public Works Trust Loan Juanita Lift Station Replacement Project - Design	7/1/2000	7/1/2019	1	227,500	164,825	62,675	12,535
2001 Public Works Trust Loan Juanita Lift Station Replacement Project - Construction	11/14/2001	7/1/2021	0.5	1,848,000	1,127,220	720,780	102,968
2004 Public Works Trust Loan Central Way Sewer Replacement	9/1/2004	7/1/2024	0.5	1,086,300	512,975	573,325	57,333
2012 Public Works Trust Loan NE 80 St Water/Sewer Main Replacement	10/8/2012	6/1/2032	0.5	177,522	5,511	172,011	9,556
Total				\$4,134,172	\$2,560,859	\$1,573,313	\$226,914

The revenue debt service requirements to maturity are as follows:

Year Ending December 31		
	Principal	Interest
2015	226,914	8,403
2016	182,393	6,982
2017	182,392	6,008
2018	182,393	5,033
2019	182,392	4,059
2020-2024	540,380	8,473
2025-2029	47,781	1,433
2030-2032	28,668	287
Total	\$ 1,573,313	\$ 40,678

City of Kirkland Credit Ratings

On December 5, 2014 Standard and Poor's affirmed the City of Kirkland's AAA rating. On August 15, 2011, Moody's Investors Service assigned a rating of Aa2 to City of Kirkland, Washington's Limited Tax General Obligation Bonds, 2011. Moody's ratings for Kirkland are now Aa2 for both Unlimited Tax GO Bonds and Limited Tax GO Bonds.

NOTE 10: LEASES

Operating Leases

Copier Leases

In 2011, the City entered into two 60 month leases for a Konica Minolta C652 and Konica Minolta C652. The total cost for the year ended December 31, 2014, was \$17,845. The future minimum payments for these agreements are summarized as follows:

2015	17,845
2016	12,652
Total	<u>\$ 30,497</u>

King County Housing Authority

Effective November 1, 2008, the City entered into a five year lease with King County Housing Authority to provide facilities for Parks Maintenance operations. On June 27, 2013 the lease was extended 3 additional years with a termination date of October 31, 2016. Lease payments for 2014 totaled \$101,364. Future minimum payments are summarized as follows:

2015	103,884
2016	86,570
Total	<u>\$190,454</u>

Envelope Opener

In 2014, the City entered into a 60 month lease for an Envelope Opener from Neopost Northwest. The total cost for the year ended December 31, 2014, was \$328. The future minimum payments for these agreements are summarized as follows:

2015	492
2016	493
2017	492
2018	493
2019	164
Total	<u>\$2,134</u>

**NOTE 11:
CHANGES IN LONG-TERM LIABILITIES**

During the year ending December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/14	Additions	Reductions	Ending Balance 12/31/14	Due Within One Year
<u>Governmental Activities</u>					
Bonds Payable:					
General Obligation Bonds	44,293,236	-	2,537,949	41,755,287	2,049,817
Less:					
Issuance Discount	(335,257)	0	(12,455)	(322,802)	0
Issuance Premium	162,015	0	20,460	141,555	0
Compensated Absences	2,947,875	2,872,848	2,823,726	2,996,996	2,379,385
Self Insurance Claims	601,895	7,159,200	7,170,710	590,385	590,385
Pension Obligation	(982,842)	(135,920)	(209,697)	(909,065)	
Other Post Employment Benefits	3,309,599	1,175,968	643,170	3,842,397	
Governmental Activity Long-term Liabilities	<u>49,996,521</u>	<u>11,072,096</u>	<u>12,973,863</u>	<u>48,094,753</u>	<u>5,019,587</u>
<u>Business-Type Activities</u>					
Revenue Bonds	475,000	0	475,000	0	0
PWTF Loans	1,771,988	150,679	349,354	1,573,313	226,914
Compensated Absences	<u>141,547</u>	<u>361,346</u>	<u>350,886</u>	<u>152,007</u>	<u>121,606</u>
Business-Type Activity Long-term Liabilities	<u>2,388,535</u>	<u>512,025</u>	<u>1,175,240</u>	<u>1,725,320</u>	<u>348,520</u>

Compensated Absences

The City's Governmental Activities liability for accrued compensated absences includes a liability of \$169,610 for Internal Service Funds which are predominantly associated with governmental funds. The funds that incur liability for compensated absences are responsible for liquidating them in future periods based upon where the employee's salary is paid. The governmental funds which typically liquidate compensated absences include the General Fund and Parks Maintenance Fund.

Other Post Employment Benefits

The liability for the Other Post Employment Benefits obligation is liquidated by the general fund.

Beginning in 2014 the LEOFF 1 Pension Fund is liquidating some OPEB liability as deemed appropriate by the actuarial valuation of the fund. In 2014 the amount utilized to exhaust OPEB costs was \$225,000.

**NOTE 12:
CONTINGENCIES AND LITIGATIONS**

As of December 31, 2014, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

**NOTE 13:
INTERFUND BALANCES AND TRANSFERS**

Interfund balances as reported in the financial statements at December 31, 2014, were as follows:

Interfund Balances Between Governmental and Business-Type Activities	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Governmental Funds:		
General	\$810,501	\$2,690
Non Major Governmental Funds:		
Cemetery Operating		
Parks Maintenance		
Parks Levy		164
Internal Service Funds		8,702
Business-Type Funds:		
Water/Sewer	12,298	504,201
Surface Water		38,312
Solid Waste		268,729
Total Transfers	<u>\$822,799</u>	<u>\$822,799</u>

Transfers are legally authorized transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended. Transfers occur for capital and operating reserves, capital purchases, debt service, and subsidies. Interfund transfers at December 31, 2014, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General	470,007	9,526,082
Excise Capital Improvement	51,594	4,369,031
General Capital	7,053,586	540,768
Transportation Capital	7,746,351	50,320
Non Major Governmental Funds:		
Parks Maintenance	0	0
Parks Levy	15,987	1,125,000
Impact Fees	0	1,843,045
Debt Service Funds	2,838,508	0
Internal Service Funds	852,067	811,704
Proprietary Funds:		
Water/Sewer	0	135,400
Surface Water	0	101,749
Solid Waste	0	300,000
Agency Funds	0	225,000
 Total Transfers In/Out	 <u>\$19,028,100</u>	 <u>\$19,028,100</u>

NOTE 14: JOINT VENTURES

Eastside Narcotics Task Force

The Eastside Narcotics Task Force (ENTF) was formed by the cities of Bellevue, Kirkland, Redmond, Mercer Island, and Issaquah in 1981 for the purpose of mutual support in the fight against drug crimes. In 1990, ENTF engaged the support services of King County Prosecutor's Office. The King County Sheriff's Office joined ENTF in 2002 to also provide support in the fight against drug crimes. On May 3, 2010, the ENTF amended the Interlocal Cooperative Agreement to include The Washington State Patrol. As of October of 2009, Issaquah permanently withdrew its ENTF membership. The US Postal Service joined ENTF on October 1, 2013. Mercer Island and the King County Sheriff's Office are no longer members.

The task force is governed by an Executive Board whose members are composed of the chief law enforcement officer, or his/her designee, from each participating jurisdiction. The Board is responsible for formulating policy, establishing annual budgets, adding members, appointing the Administering Agency, and acquiring, holding, and disposing of real and personal property, and has final approval of expenditures and disbursements of revenues (seized and forfeited assets). A Commander is assigned who is an Officer from the Bellevue Police Department with a rank of Captain or higher, and is responsible for the operation of the task force and the accomplishment of the goals and objectives of the task force.

Member agencies share in the costs of the operation of the Task Force. All revenues are disbursed to the participating Agencies based on current participations and calculated each year. Current percentages are as follows:

Bellevue	54.1%
Redmond	9.9%
Kirkland	9.7%
Mercer Island	8.9%
Issaquah	2.2%
King County	9.9%
WSP	5.3%

Upon termination of the task force, equipment and proceeds will be divided equitably as determined by the board. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from Eastside Narcotics Task Force, c/o Carl Krikorian, Police Fiscal Manager, Bellevue Police Department, 450 110th Avenue NE, Bellevue, WA 98004 or PO Box 90012, Bellevue, WA 98009.

ARCH – Housing Coalition

In November 1992, the City of Kirkland joined the cities of Bellevue, Redmond, and King County to establish A Regional Coalition for Housing (ARCH). The agreement was most recently amended in 2010 which includes King County and the cities of Bellevue, Redmond, Bothell, Woodinville, Issaquah, Mercer Island, Newcastle, Beaux Arts Village, Clyde Hill, Hunts Point, Medina, Yarrow Point, Kenmore, Sammamish, and Kirkland.

ARCH's purpose is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants and HUD grants.

ARCH is governed by an Executive Board composed of a chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city contributes operating revenues as specified in the annual budget for ARCH. Contributions from the member cities are based on each member's population. Contributions by member agencies are held in the ARCH Housing Trust Fund Account and dispersed by the Administering Agency for approved projects. In 2014 the City contributed \$81,456 to ARCH for operations and \$300,000 to fund affordable housing projects.

Members may withdraw from the ARCH agreement by giving one year's written notice to the Executive Board, by December 31 of any year, of its intention to terminate, effective December 31 of the following year. Members remain legally and financially responsible for any obligation incurred while a member of ARCH. Upon dissolution, the agreement provides for distribution of all property and assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, A-3, Redmond, WA 98052.

Cascade Water Alliance

In 1999, eight cities and districts joined together to provide water supply for current and future demands through the Cascade Water Alliance. The members entered into an interlocal agreement to enhance their ability to supply water to their respective service areas and the region by developing, owning, and operating regional water supply assets. The current members include five Cities and two Water and Sewer Districts. Collectively, the membership of the Alliance serves over 350,000 residents and 20,000 businesses in the Puget Sound Region.

The City of Kirkland's share of membership dues for 2014 was \$339,645. Cascade Water Alliance charges its members for each additional connection to the Cascade system. Each member collects a Regional Capital Facilities Charge and remits to the Cascade Alliance. During 2014, the City of Kirkland remitted \$853,457 for this charge.

In April of 2006, the Cascade Water Alliance issued revenue bonds in the amount of \$55.2 million. The bonds were issued to cover the costs of carrying out a portion of the capital program described in the Cascade Watershed Management Plan. In October of 2009, the Cascade Water Alliance issued a series of water system revenue bonds with net proceeds to Cascade of \$80 million. The majority of the bond proceeds funded the acquisition of Lake Tapps, tribal settlement agreements, and limited Tacoma Cascade Pipeline expenditures. In December of 2012, the Cascade Water Alliance issued a series of water system revenue bonds for approximately \$48 million for the purposes of paying part of the cost of financing Capital Projects and providing for a Debt Service Reserve. The 2006, 2009 and 2012 bonds do not pledge the full faith and credit of any of the seven current members, nor do the bonds pledge any revenues except as the members commit under the Interlocal Contract which established Cascade Water Alliance.

Financial statement information can be obtained from Cascade Water Alliance by contacting Scott Hardin, Director of Finance and Administration, 520 112th Ave NE, Suite 400, Bellevue, WA 98004.

EPSCA

The Eastside Public Safety Communications Agency (EPSCA), an emergency regional radio access service provider operation, was established on May 26, 1992, by an interlocal agreement among the cities of Bellevue, Redmond, Kirkland and Mercer Island. The Agreement was amended in 1993, to include the City of Issaquah as an additional principal. EPSCA began principal operations in December 1995. In 2013 EPSCA was converted from an interlocal agency to a non-profit entity.

EPSCA is governed by an Executive Board, which is comprised of the Chief Executive officers of the Principals. The Executive Board is responsible for review and approval of all budgetary, financial, and contractual matters.

An Operations Committee, composed of the Chief of Police and Fire Chief of each Principal, reports to the Board and oversees budget preparation, rates, revenues, expenditures, policies and other operational issues. This Committee also includes representation from non-Principal EPSCA user agencies.

EPSCA has developed an Eastside radio communications system which is integrated with a regional radio communications network. Its capital funding derives from a September 15, 1992, voter-approved King County excess property tax levy of \$57,016,764. EPSCA's portion of the levy was \$10,004,469.

Operating revenues derive from fees charged to the Principals for communications services and from subscriber fees for communications services. In 2014 the City of Kirkland paid EPSCA \$127,328 for these services.

The interlocal agreement among the Eastside cities provides for a weighted vote according to the proportion of each Principal's system radios in relation to the total number of system radios used by all Principals. As of December 31, 2014, the weighted vote was as follows:

Bellevue	48.780%
Redmond	23.965%
Kirkland	16.013%
Mercer Island	5.992%
Issaquah	5.250%

These percentages are reviewed and adjusted annually at January 1 based on the number of radios on the system in use by current principals as of December 31 of the preceding year. Upon dissolution, the interlocal agreement provides for distribution of assets among the Principals based on weighted voting percentages in force at the time of dissolution. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

The current EPSCA system is approaching 20 years old. In 2014 an Interlocal Cooperation Agreement was signed to provide for the implementation of a new regional emergency radio network system and will be paid for through a King County ballot measure in 2015. It will take 5 to 6 years to complete the system.

Budget monitoring and compiled financial statements for EPSCA can be obtained from EPSCA, c/o Jessie Morgan, MS PSEPS, PO Box 97010, Redmond WA 98073-9710.

eCityGov Alliance

On March 25, 2002, the City of Bellevue City Council unanimously adopted a resolution establishing the eCityGov Alliance between the City of Bellevue and the Cities of Bothell, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish and Snoqualmie. Since then, additional cities and agencies have joined. The Alliance establishes on-line services through a jointly operated internet portal. In 2014 eCityGov Alliance became a non-profit corporation.

Expenditures consist of capital and operations costs as specified in the budget adopted by the eCityGov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Revenues consist of annual membership fees from the members of the eCityGov Alliance. The City of Kirkland paid membership dues of \$79,499 in 2014.

The interlocal agreement may be terminated if Principals holding at least 66% of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the property. The City's share of assets is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from City of Bellevue, Information Technology Department, c/o Mollie Purcell, P.O. Box 90012, Bellevue, WA 98009-9012.

NORCOM

In November of 2007, the City of Kirkland, with the cities of Bellevue, Bothell, Clyde Hill, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system.

Operating revenues are provided by user fees charged to each member based on average call volume. For 2014, the City of Kirkland's share of these fees was \$2,432,592.

Additional financial information can be obtained from NORCOM, c/o Gwen Pilo, Finance Manager, P.O. Box 50911, Bellevue, WA 98015-0911.

Hazardous Materials Unit and Response Team

In January 1984, the City of Kirkland joined the cities of Bellevue, Redmond, Bothell, and King County Fire Protection Districts 16 and 36 to form a Hazardous Materials Unit and Response Team (HazMat). In December 1991, the agreement was modified to designate the City of Bellevue as the lead agency. Current members are the cities of Bellevue, Kirkland, Redmond, Bothell, Snoqualmie, and Duvall along with Eastside Fire & Rescue, Woodinville Fire & Life Safety, and King County Fire District 27.

The HazMat unit provides equipment and personnel for the management of hazardous material incidents as a normal function of fire protection services.

The HazMat team is governed by a Joint Board comprised of the Fire Chiefs of the member agencies plus one member from the HazMat team. The Joint Board is responsible for formulating policy, establishing annual budgets, and acquiring, holding, and disposing of real and personal property. With the exception of the member from the HazMat team, each representative on the Joint Board has a vote on all matters. The City of Bellevue has the administrative authority for operations conducted pursuant to the agreement and provides administrative and secretarial support to the Joint Board.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of assets among the members based on the percentage of the total annual charges paid by each member over the life of the agreement. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Operating revenues are provided by an annual charge assessed each member based on each member's property values and number of emergency incidents. The City of Kirkland's assessment was \$9,539 in 2014.

Budget monitoring information can be obtained from Eastside Hazardous Materials Joint Board, c/o Babette Bechtold, Bellevue Fire Department, PO Box 90012, Bellevue, WA 98004.

Community Connectivity Consortium

The City of Kirkland is among several public agencies in the area that have established the Community Connectivity Consortium. The consortium started in 2003 with a joint fiber project between the Lake Washington School District and the City of Kirkland. It has now expanded to include the Cities of Kirkland, Bellevue, Renton, Seattle, Algona, Auburn, Kent, Pacific, Tukwila, Redmond, Newcastle; the Lake Washington School District, University of Washington, Bellevue College, Bellevue School District, King County Public Hospital District No 2 (Evergreen Healthcare), Renton School District, Valley Communications Center, NORCOM, King County, Valley Medical Center, and the Northshore School District. In 2011 the consortium was formally organized as a government agency.

The Consortium sets the terms and conditions for sharing fiber optic installation projects, outlines how the parties will work together on fiber projects and establishes the original backbone of the Fiber Consortium network through contributions of budget, fiber assets, conduit, right of way and staff expertise. It has built over 35 miles of fiber optic cable, creating strategic connection points along the way. The partners use the fiber network to connect schools and universities to enhance learning; to connect hospitals, medical facilities and clinics to improve health care; connect government facilities for public safety, transportation and other needs; and to provide an open access network to serve the public with wireless and broadband access. The City of Kirkland paid membership dues of \$3,570 in 2014.

For additional information please contact Chelo Picardal, Board Chair, CTO, City of Bellevue, cpicardal@bellevuewa.gov.

Sound Cities Association

In 1970 Sound Cities Association (SCA) was formed to help cities act locally and partner regionally to create vital, livable communities through advocacy, education, leadership, mutual support and networking. The City of Kirkland is among 36 cities represented by SCA. Membership is limited to cities and towns in King County having a population less than 150,000. The SCA Board of Directors oversees the general activities of the Association, and governs the organization by establishing broad policies and objectives for SCA.

Operating revenues are provided by membership dues based on population. The City of Kirkland's dues were \$39,186 in 2014. Upon dissolution of SCA, any funds or assets shall be distributed to member cities and towns pursuant to the same formula used to determine membership dues. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

For additional information contact Deanna Dawson, Executive Director, deanna@soundcities.org.

North Sound Metro SWAT

In 2013, Kirkland joined the North Sound Metro Special Weapons and Tactics (SWAT) Crisis Negotiating Team, which is a regional team made up of the following cities: Bothell, Edmonds, Kirkland, Lake Forest Park, Lynnwood, Mill Creek, Monroe and Mountlake Terrace. Kirkland joined this team for the purpose of combining resources to create a specially trained and equipped unit to respond to and resolve criminal activity of a high risk nature. The Executive Board is comprised of the Police Chiefs of all participating cities.

The Board reviews and approves changes and updates to the SWAT Policy and Procedures Manual and gives approval and direction on operational matters.

Operating revenues are provided by contributions from the participating cities based on population. The City of Kirkland's dues were \$8,562 for 2014. Upon termination of the SWAT team, any funds or jointly purchased assets will be distributed to the participating cities. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from Assistant Chief Jim Lawless, City of Edmonds, 250 5th Ave North, Edmonds, WA 98020.

**NOTE 15:
BUDGET TO GAAP RECONCILIATION**

The City's budget is prepared primarily on the cash basis of accounting; therefore, the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – for the General Fund, Excise Tax Capital Improvement Fund, Street Operating Special Revenue Fund, and Contingency Special Revenue Fund report revenues when received and expenditures when paid, instead of revenue and expenditure amounts as defined under the modified accrual basis of accounting. The following schedule reconciles revenues and expenditures on the budgetary basis to revenues and expenditures on the modified accrual basis as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances. With the implementation of GASB 54 the Street Operating Fund and Contingency Fund will continue to be budgeted and operational but will be consolidated with the General Fund for reporting purposes and reclassified on this reconciliation.

2014 Budget to GAAP Reconciliation

	General Fund	Excise Tax Capital Improvement	Street Operating Special Revenue	Contingency Special Revenue
Revenues on the Budgetary Basis	84,917,191	6,894,568	8,378,567	0
Increase (Decrease) due to accruals	(370,060)	152,482	0	0
Reclassification	8,378,567	0	(8,378,567)	0
Revenues on the GAAP Basis	<u>92,925,698</u>	<u>7,047,050</u>	<u>0</u>	<u>0</u>
Expenditures on the Budgetary Basis	76,745,257	0	5,502,023	0
Increase (Decrease) due to accruals	(998,979)	0	0	0
Reclassification	5,502,023	0	(5,502,023)	0
Expenditures on the GAAP Basis	<u>81,248,301</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources (Uses) on the Budgetary Basis	(5,818,283)	(4,317,438)	(3,196,714)	0
Increase (Decrease) due to accruals	612	0	0	0
Reclassification	(3,196,714)	0	3,196,714	0
Other Financing Sources (Uses) on the GAAP Basis	<u>(9,014,385)</u>	<u>(4,317,438)</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures on the Budgetary Basis	8,171,934	6,894,568	2,876,544	0
Increase (Decrease) due to accruals	628,919	152,482	0	0
Reclassification	2,876,544	0	(2,876,544)	0
Excess (Deficiency) of Revenues				
Over (Under) Expenditures on the GAAP Basis	<u>11,677,397</u>	<u>7,047,050</u>	<u>0</u>	<u>0</u>

NOTE 16:
PRIOR PERIOD ADJUSTMENT

In 2014 the City received \$88,245 from Washington Cities Insurance Authority reimbursing for extensive damage to the canopy structure for the Maintenance Center Fuel Pumping Station which was not included as a 2013 accounts receivable. This adjustment is reflected in the restatement of the Facilities Fund beginning fund balance.

REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTER'S PENSION PLAN
SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2006	\$ 1,090	\$ 533	\$ (557)	205%	\$ 84	(663)%
January 1, 2008	1,305	469	(836)	278%	90	(929)%
January 1, 2010	1,527	420	(1,107)	364%	0	N/A
January 1, 2012	1,678	396	(1,282)	424%	0	N/A
January 1, 2014	1,624	363	(1,261)	447%	0	N/A

REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 RETIREE MEDICAL AND LONG TERM CARE BENEFITS
SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2006	\$ 0	\$ 11,360	\$ 11,360	0	% N/A	% N/A
January 1, 2008	0	12,505	12,505	0	% N/A	% N/A
December 31, 2009	0	10,724	10,724	0	% N/A	% N/A
December 31, 2010	0	10,070	10,070	0	% N/A	% N/A
December 31, 2011	0	9,534	9,534	0	% N/A	% N/A
December 31, 2012	0	10,211	10,211	0	% N/A	% N/A
December 31, 2013	0	15,595	15,595	0	% N/A	% N/A
December 31, 2014	0	14,913	14,913	0	% N/A	% N/A

Source: City of Kirkland, Actuarial Valuation of Firefighters' Pension Fund and Retiree Medical and Long-Term Care Benefits for LEOFF 1 Employees. Pension Fund Valuations are done every two years. The most recent report was done 12/31/2012.

2009 through 2014 valuation amounts for the Medical and Long Term Care Benefits were done using the Alternative Measurement Method for GASB 45 as directed by the Office of State Actuary.

**REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTER'S PENSION PLAN
CHANGES IN NET LIABILITY**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2013	\$ 363,000	\$ 1,623,721	\$ (1,260,721)
Changes for the year:			
Service Cost	-	-	-
Interest on total pension liability	12,813		12,813
Effect of plan changes			-
Effect of economic/demographic gains or losses			-
Effect of assumptions changes or inputs	9,900		9,900
Benefit payments	(14,066)	(14,066)	-
Medical payments from fund		(225,000)	225,000
Employer contributions			-
Contributions from state fire insurance premium tax		97,205	(97,205)
Net investment income		14,415	(14,415)
Administrative expenses		(8,125)	8,125
			-
Balances as of December 31, 2014	\$ 371,647	\$ 1,488,150	\$ (1,116,503)

Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 3.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5%) or 1 percentage point higher (4.5%) than the current rate.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total Pension Liability	\$ 415,134	\$ 371,647	\$ 334,631
Fiduciary Net Position	1,488,150	1,488,150	1,488,150
Net Pension Liability	(1,073,016)	(1,116,503)	(1,153,519)

REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTER'S PENSION PLAN
NET PENSION LIABILITY AND RELATED RATIOS
(rounded to thousands)

	Fiscal Year Ending December 31	
	2014	
Total Pension Liability		
Service Cost	\$	0
Interest on total pension liability		13
Effect of plan changes		0
Effect of economic/demographic gains or (losses)		0
Effect of assumption changes or inputs		10
Benefit payments		(14)
Net change in total pension liability	\$	9
 Total pension liability, beginning	\$	363
Total pension liability, ending (a)	\$	372
 Fiduciary Net Position		
Employer contributions	\$	0
Contributions from state fire insurance premium tax		97
Investment income net of investment expenses		14
Benefit payments		(14)
Medical payments from fund		(225)
Administrative expenses		(8)
Net change in plan fiduciary net position	\$	(136)
 Fiduciary net position, beginning	\$	1,624
Fiduciary net position, ending (b)	\$	1,488
 Net pension liability, ending = (a) - (b)	\$	(1,117)
 Fiduciary net position as a % of total pension liability		400.42%
 Covered payroll	\$	0
 Net pension liability as a % of covered payroll		N/A

City of Kirkland
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program Cluster	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	BHM-2201(007) LA-8269	349,000	-	349,000	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	CM-0625(007) LA-7165	97,947	-	97,947	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	CM-0625(008) LA-7367	144,420	-	144,420	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	CM-0625 (010) LA-8377	1,071,100	-	1,071,100	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	CM-9999(652) LA-8021	193,112	-	193,112	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	HSIP-0002(343) LA-8010	75,028	-	75,028	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	TAP-0625(011) LA-8378	201,375	-	201,375	Note 1,2

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	SRTS- 0625(009) LA- 7680	2,000	-	2,000	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	SRTS- 2055(001) LA- 7714	18,672	-	18,672	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	STPF-HLP- 1888(010) LA- 7513	34,171	-	34,171	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	STPUL- 2067(001) LA- 8268	2,465,277	-	2,465,277	Note 1,2
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA DOT)	Highway Planning and Construction	20.205	STPUL- 2242(001) LA- 8102	52,790	-	52,790	Note 1,2
Total Highway Planning and Construction Cluster:				4,704,892	-	4,704,892	
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	N/A	11,401	-	11,401	Note 1,2,4
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	9,631	-	9,631	Note 1,2,4
Total Highway Safety Cluster:				21,033	-	21,033	

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Other Programs							
Office Of Community Oriented Policing Services, Department Of Justice (via N/A)	Public Safety Partnership and Community Policing Grants	16.710	2010-CK-WX- 0225	24,228	-	24,228	Note 1,2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	7,125	-	7,125	Note 1,2,4
Region 10, Environmental Protection Agency (via King County)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	N/A	23,117	-	23,117	Note 1,2,4
Region 10, Environmental Protection Agency (via State of WA Dept of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1400024	188,869	-	188,869	Note 1,2
Region 10, Environmental Protection Agency (via State of WA Dept of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C1400154	50,375	-	50,375	Note 1,2
Region 10, Environmental Protection Agency (via State of WA Dept of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C1400182	128	-	128	Note 1,2
Total CFDA 66.123:				262,489	-	262,489	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Department Of Energy (via State of WA Dept of Commerce)	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical	81.117	F14-52117-007	13,000	-	13,000	Note 1,2
Department Of Homeland Security (via Snohomish County)	Analysis/Assistance Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4168-DR-WA	4,944	-	4,944	Note 1,2
Department Of Homeland Security (via State of WA Military Dept)	Emergency Management Performance Grants	97.042	E14-116	16,039	-	16,039	Note 1,2
Department Of Homeland Security (via State of WA Military Dept)	Emergency Management Performance Grants	97.042	E15-176	33,380	-	33,380	Note 1,2
Total CFDA 97.042:				49,419	-	49,419	
Department Of Homeland Security (via City of Bellevue Emergency Mgmt)	Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	N/A	617	-	617	Note 1,2,4
Total Federal Awards Expended:				5,087,746	-	5,087,746	

The accompanying notes are an integral part of this statement.

CITY OF KIRKLAND
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2014

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Kirkland's financial statements. The City uses the modified accrual basis of accounting in all governmental and agency funds of the City.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Kirkland's portion, are more than shown.

Note 3 - Noncash Awards – Equipment

The City of Kirkland received equipment that was purchased with federal Homeland Security funds by City of Seattle, Seattle Fire Department. The amount reported on the schedule is the value of the property on the date it was received by the City.

Note 4 - Not Available (N/A)

The City of Kirkland was unable to obtain other identification number.

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.

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

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