



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Longview

Cowlitz County

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

Published September 24, 2015

Report No. 1015194





Washington State Auditor's Office

September 24, 2015

Mayor and City Council
City of Longview
Longview, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Longview'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 Longview
Cowlitz County
January 1, 2014 through December 31, 2014**

The results of our audit of the City of Longview 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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.307	Economic Development Cluster - Economic Adjustment Assistance
16.710	ARRA - Public Safety Partnership and Community Policing Grants (Recovery Act)
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
20.507	Federal Transit Cluster - Federal Transit - Formula Grants

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

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

City of Longview Cowlitz County January 1, 2014 through December 31, 2014

2014-001 The City's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act reporting requirements.

CFDA Number and Title:	20.507 Federal Transit Formula Grants
Federal Grantor Name:	U.S. Department of Transportation Federal Transit Administration
Federal Award/Contract Number:	WA-04-0098, WA-90-514-01 and WA-90-494-01
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

During 2014, the City passed through \$1,618,541 in grant funds provided by the U.S. Department of Transportation to the Cowlitz Transit Authority. Grant funding may be used for financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in public transportation services. In some circumstances it may also be used to operate a transit system in urbanized areas with populations of less than 200,000.

Description of Condition

The Federal Funding Accountability and Transparency Act of 2006 (FFATA) requires grantees to report subawards to subrecipients for amounts of \$25,000 or more. They must report each subaward by the end of the month following the month in which it was granted. During our audit, we found the City did not have sufficient internal controls in place to ensure the fiscal year 2014 FFATA reports were filed correctly. The City did not report the one subaward made during the audit period. We noted this same condition in the prior audit.

We consider this deficiency in internal controls to be a significant deficiency.

Cause of Condition

The City does not believe they make subawards with their grant funds, and therefore, do not need to complete the report.

Effect of Condition and Questioned Costs

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

Recommendation

We recommend the City:

- Provide training to personnel to ensure they have an adequate understanding of federal requirements.
- Increase oversight to ensure required reports are accurately compiled, reviewed and submitted in a timely manner.
- Continue to work with the grantor to obtain a determination on whether the City has a subaward subject to reporting requirements.

City's Response

The City of Longview is appreciative of the work performed by the State Auditor's Office on our behalf.

As mentioned in the above Cause of Condition, the City of Longview does not believe that a subrecipient relationship exists with the Cowlitz Transit Authority which would remove the basis for the finding that subawards were not filed under the Federal Funding Accountability Act of 2006. Additionally, as noted above, this subrecipient issue has been brought to the attention of the grantor with the hope for a determination prior to the issuance of this audit report. Unfortunately, as of the deadline for audit filing, the subrecipient relationship matter was still pending.

The City looks forward to working with the Washington State Auditor's Office and the Federal Transit Administration in securing a final determination and resolving this matter.

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

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

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

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness in internal control over compliance.

A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

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

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

I. Reporting Subawards and Executive Compensation.

a. Reporting of first-tier subawards.

1. Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. Where and when to report.

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

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

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 400, states in part:

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

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

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

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Longview. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 1/1/2013-12/31/2013	Report Ref. No: 1012532	Finding Ref. No: 1	CFDA Number(s): 20.507
Federal Program Name and Granting Agency: Federal Transit Formula Grants and ARRA Federal Transit Formula Grants, U.S. Department of Transportation Federal Transit Administration		Pass-Through Agency Name: NA	
Finding Caption: The City's internal controls were not adequate to ensure compliance with Federal Transit Formula Grants reporting and subrecipient monitoring requirements leading to questioned costs of \$17,259.			
Background: The City did not report the one subaward made during FY 2013 in compliance with the Federal Funding Accountability and Transparency Act of 2006 (FFATA). In addition, the City did not have sufficient internal controls in place to ensure its subrecipient took corrective action on prior audit findings. As a result, the subrecipient did not have adequate time and effort documentation to support one employee's time charged to the grant. These costs were questioned.			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input checked="" type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> No Corrective Action Taken</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
Corrective Action Taken: <i>The City worked with the subrecipient to ensure the payroll costs that were not supported by adequate time and effort documentation were not charged to the grant until the current audit period. However, the City did not complete the required FFATA report. Therefore, we are issuing a finding on this matter in the current report.</i>			

**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 Longview
Cowlitz County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Longview
Longview, 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 Longview, Cowlitz 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 25, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the City implemented Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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



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

June 25, 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 Longview
Cowlitz County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Longview
Longview, Washington

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

We have audited the compliance of the City of Longview, Cowlitz 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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

City's Response to Findings

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

PURPOSE OF THIS REPORT

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



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

September 16, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Longview Cowlitz County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Longview
Longview, 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 Longview, Cowlitz 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 22.

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 Longview, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2014, the City adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 23 through 36 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 25, 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 25, 2015

FINANCIAL SECTION

**City of Longview
Cowlitz 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 Fund Balances to Net Position for Governmental
Activities – 2014

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

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual
– General 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 Fiduciary Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 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 Longview, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Longview for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Longview exceeded its liabilities at the close of the most recent fiscal year by \$126,997 (net position). Of this amount, \$27,185 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Longview's total net position increased by \$6,535, or 5.4% in 2014. While governmental activities increased \$5,655, business-type activities increased \$880.
- As of the close of the current fiscal year, the City of Longview's governmental funds reported combined ending fund balances of \$20,086. Approximately 64 percent, \$12,817 is unrestricted and available for spending at the government's discretion.
- At the end of the current fiscal year, the total fund balance for the general fund was \$11,137. The entire \$11,137 fund balance for the general fund was unrestricted, and represented 35 percent of total general fund expenditures.
- The City of Longview's total governmental long-term debt decreased by \$1,027 (5.8 percent) during the current fiscal year. The key factor behind this decrease was regular principal payments on outstanding bonds. Principal retirements totaling \$3,071 were processed during the current year. The net increase in business-type debt was \$9,049. The increase in business-type debt was due to the issuance of Revenue bonds in the amount of \$9,995 for sewer pump station rehabilitation and replacements and low-impact development stormwater facilities.

(See notes to the financial statements, Note 10 for information related to changes in total debt.)

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Longview's basic financial statements. The City of Longview's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all of the City of Longview's assets and deferred inflows of financial resources, as well as liabilities and deferred inflows of financial resources, with the difference between these two groups reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Longview is improving or deteriorating.

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

Both of government-wide financial statements distinguish functions of the City of Longview that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Longview include general government, public safety, highways and streets, economic development and culture and recreation. The business-type activities of the City of Longview include a water and sewer utility, a regional water treatment plant utility, a sanitary utility, a storm water utility, public transit and a golf course-tennis/racquetball center.

The government-wide financial statements report activities only for the City of Longview itself, as there is no other organization for which the City is financially accountable.

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

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

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

The City of Longview maintains 18 individual governmental funds. Information is presented separately for the general fund in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The general fund is the only fund considered to be a major fund. Data from the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds. The City of Longview maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Longview uses enterprise funds to account for its water-sewer, sanitary and storm water utilities, public transit, golf course and tennis/racquet center. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Longview's various functions. The City of Longview uses internal service funds to account for its fleet of vehicles, office equipment, technology and software, self-insurance program, facility maintenance, unemployment compensation and employee benefit programs. These services predominantly benefit governmental functions and have been included within governmental activities in the government-wide financial statements with the exception of certain balances that pertain to business activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water-sewer utility, sanitary utility and public transit system, all of which are considered to be major funds of the City of Longview. Conversely, the City's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Longview's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds reported by the City of Longview include the Firemen's Pension Trust Fund, the Northwest Health Foundation Private Purpose Trust Fund and the State Agency Fund.

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

Other information. In addition to the basic financial statements and accompanying notes, this report presents certain additional information concerning the City of Longview's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Longview, assets exceeded liabilities by \$126,997 at the close of the most recent fiscal year.

By far the largest portion of the City of Longview's net position (60 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Longview uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Longview's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Longview's Net Position

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 31,606	\$ 30,293	\$ 33,921	\$ 27,305	\$ 65,527	\$ 57,598
Capital assets	<u>49,641</u>	<u>46,572</u>	<u>89,629</u>	<u>86,774</u>	<u>139,270</u>	<u>133,346</u>
Total assets	<u>81,247</u>	<u>76,865</u>	<u>123,550</u>	<u>114,079</u>	<u>204,797</u>	<u>190,944</u>
Deferred outflows	185	200	0	0	185	200
Long-term liabilities outstanding	22,411	23,258	49,178	39,546	71,128	62,804
Other liabilities	<u>2,743</u>	<u>3,180</u>	<u>3,634</u>	<u>4,676</u>	<u>6,838</u>	<u>7,856</u>
Total liabilities	<u>25,154</u>	<u>26,438</u>	<u>52,812</u>	<u>44,222</u>	<u>77,966</u>	<u>70,660</u>
Deferred inflows	<u>19</u>	<u>23</u>	<u>0</u>	<u>0</u>	<u>19</u>	<u>23</u>
Net position:						
Invested in capital assets net of related debt	33,133	29,366	50,284	49,511	83,417	78,877
Restricted	8,184	8,857	8,211	3,070	16,395	11,927
Unrestricted	<u>14,942</u>	<u>12,380</u>	<u>12,243</u>	<u>17,277</u>	<u>27,185</u>	<u>29,657</u>
Total net position	<u>\$ 56,259</u>	<u>\$ 50,604</u>	<u>\$ 70,738</u>	<u>\$ 69,857</u>	<u>\$ 126,997</u>	<u>\$ 120,461</u>

An additional portion of the City of Longview's net position (13 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$27,185) may be used to meet the government's ongoing obligations to citizens and creditors.

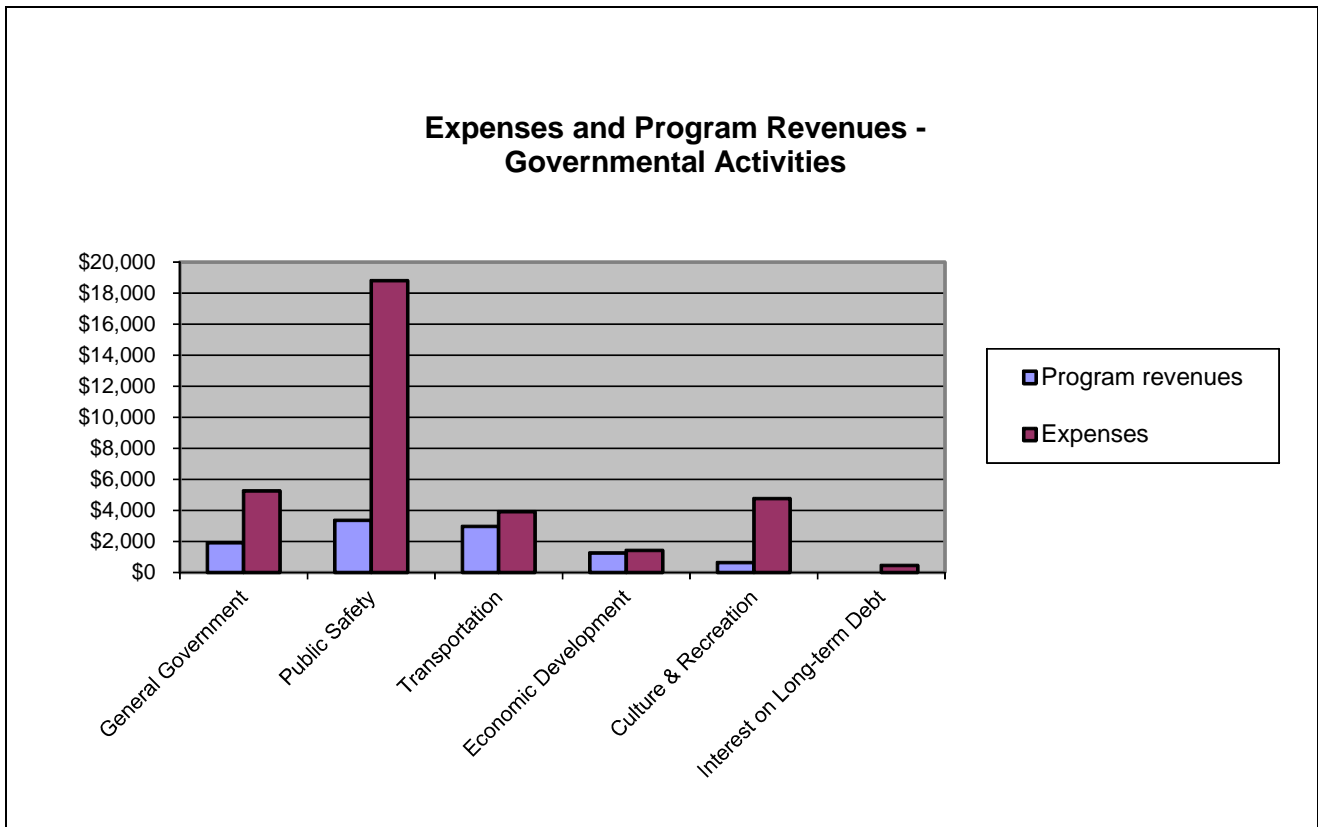
At the end of the current fiscal year, the City of Longview is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation was true of the prior year.

Governmental activities. Governmental activities increased the City of Longview's net position by \$5,434. Key elements of this increase in governmental net position are as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,643	\$ 5,439	\$ 30,751	\$ 30,207	\$ 36,394	\$ 35,646
Operating grants and contributions	1,899	2,067	1,534	2,998	3,433	5,065
Capital grants and contributions	2,563	2,452	784	833	3,347	3,285
General revenues:						
Property taxes	8,981	8,852	-	-	8,981	8,852
Sales taxes	7,546	7,442	-	-	7,546	7,442
Business/other taxes	10,040	9,908	-	-	10,040	9,908
Other	<u>1,669</u>	<u>1,032</u>	<u>45</u>	<u>(289)</u>	<u>1,714</u>	<u>743</u>
Total revenues	<u>38,341</u>	<u>37,192</u>	<u>33,114</u>	<u>33,749</u>	<u>71,455</u>	<u>70,941</u>
Expenses:						
General government	5,245	5,440	-	-	5,245	5,440
Public safety	18,792	18,127	-	-	18,792	18,127
Transportation	3,906	4,111	-	-	3,906	4,111
Economic development	1,417	1,443	-	-	1,417	1,443
Culture and recreation	4,762	4,471	-	-	4,762	4,471
Interest on long-term debt	455	670	-	-	455	670
Water-Sewer	-	-	17,459	16,820	17,459	16,820
Sanitation	-	-	4,830	4,419	4,830	4,419
Storm water	-	-	2,544	2,240	2,544	2,240
Public transit	-	-	4,885	6,993	4,885	6,993
Golf/tennis racquet	-	-	<u>624</u>	<u>655</u>	<u>624</u>	<u>655</u>
Total expenses	<u>34,577</u>	<u>34,262</u>	<u>30,342</u>	<u>31,126</u>	<u>64,919</u>	<u>65,389</u>
Increase in net position before transfers	3,764	2,930	2,772	2,623	6,536	5,552
Transfers (Note 13)	1,670	(6)	(1,670)	6	-	-
Special Items (Note xx)	-	-	-	<u>(7,423)</u>	-	<u>(7,423)</u>
Increase/(Decrease) in net position	<u>5,434</u>	<u>2,924</u>	<u>1,102</u>	<u>(4,795)</u>	<u>6,536</u>	<u>(1,871)</u>
Net position 1/1/2014	50,604	47,680	69,857	76,906	120,461	124,586
Prior period adjustments (Note 17)	221	-	(221)	(2,254)	-	(2,254)
Net position 1/1/2014 restated	<u>50,825</u>	<u>47,680</u>	<u>69,636</u>	<u>74,652</u>	<u>120,461</u>	<u>122,332</u>
Net position 12/31/2014	<u>\$ 56,259</u>	<u>\$ 50,604</u>	<u>\$ 70,738</u>	<u>\$ 69,857</u>	<u>\$ 126,997</u>	<u>\$ 120,461</u>

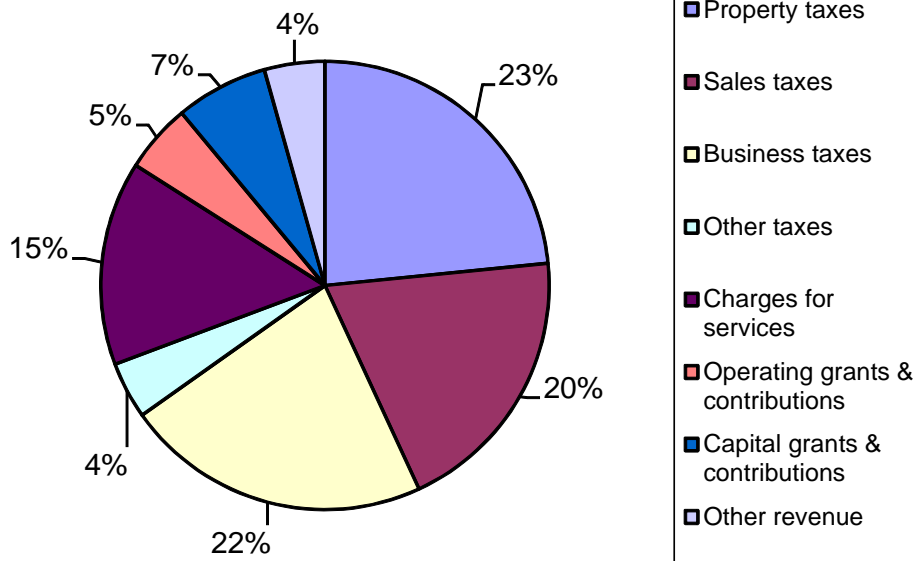
- Property taxes for 2014 increased \$129 (1.5 percent).
- Sales tax revenue increased \$104 (1.4 percent) during the year. This increase in sales tax revenue is largely attributed to increasing automotive sales.
- Business taxes decreased by \$31 (0.4 percent). Business taxes were virtually unchanged between 2013 and 2014.
- Other revenues increased \$637 (62 percent) in 2014. This increase is attributed to an increase in grant activity from the prior year, in addition to a gain realized on the disposition of assets.

The chart below illustrates the surplus or net subsidy required for different, key city programs.



The illustration above clearly demonstrates that the majority of governmental activities of the City require a subsidy by taxpayers while others such as the Economic Development activities tend to be somewhat more self-supporting. General government provides for the administrative functions of the City which include legislative, judicial, executive, legal, finance, human resources and information technology. Within public safety are the police and fire departments. Transportation includes the traffic, street maintenance and engineering departmental activities. Included within culture and recreation are the library, recreation and parks maintenance activities.

Revenues by Source - Governmental Activities

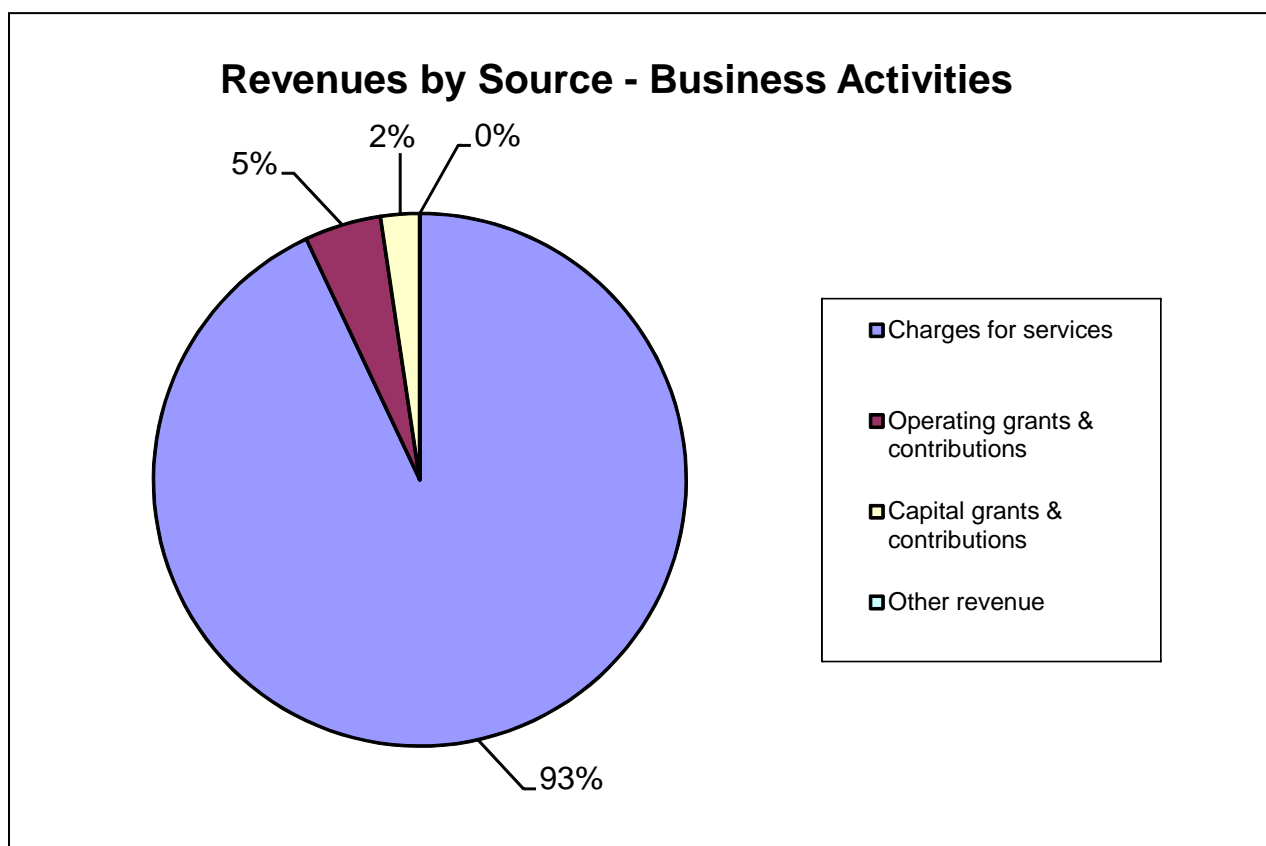


The above chart includes all revenues associated with governmental type activities. In addition to property, sales and business and occupation taxes, the above chart also includes charges for services, operating and capital grants, and contributions. As is illustrated in the above chart, property, sales and business and occupation taxes account for 65 percent of all governmental revenues.

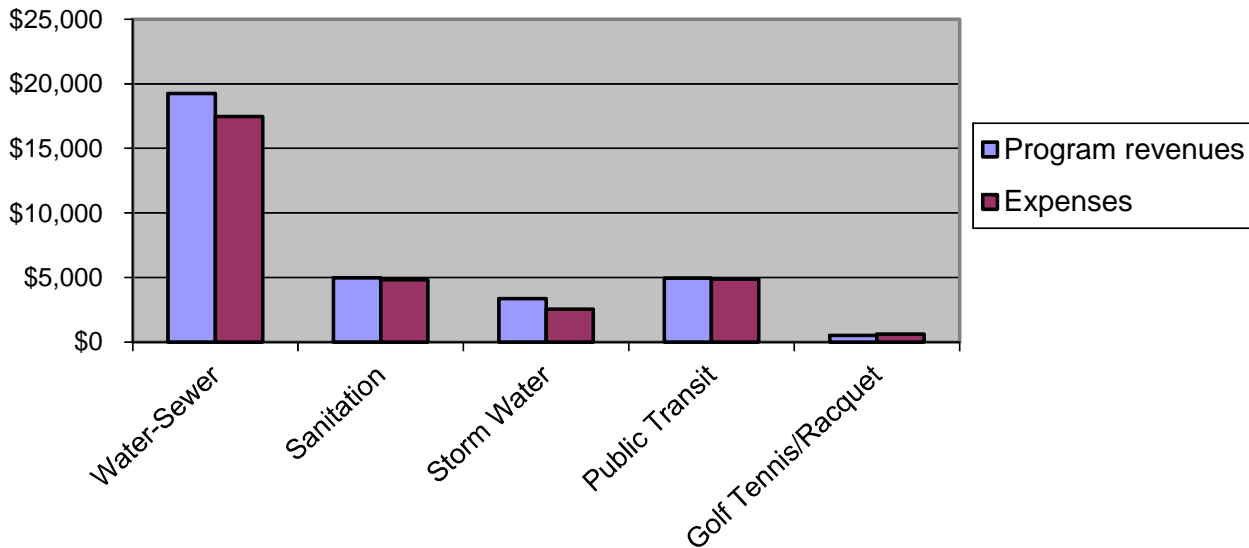
Most operating grant revenues are dedicated toward low-and-moderate income housing projects through the HOME Investment Partnership and Community Development Block Grant programs. The transportation sector receives significant support from capital grants. Under the umbrella of transportation, the City received capital grant funds for the Downtown Streetscape project. In addition, traffic safety improvements along 14th and 15th Avenue were also largely funded by capital grants provided by the U.S. Department of Transportation. The City also received transportation funding for construction of the Washington Way bridge replacement project. Construction on the Washington Way bridge replacement project is scheduled to be completed in November 2015. Beyond transportation projects, operating grant revenues provide funding for the City's Criminal Justice Assistance Fund programs which include the Street Crimes unit, school resource officers, Highland's satellite office, in addition to the COPS Hiring and Justice Assistance grant programs.

Business-type activities. Business-type activities increased the City of Longview's net position \$1,102 in 2014. The water-sewer and sanitary fund are clearly the largest proprietary funds in the City. Their combined program revenues account for 73 percent of all business-type activities. The overall increase in net position for the water-sewer and sanitary funds for 2014 was \$0.8.

- Charges for services for business-type activities increased 1.8 percent. An increase to sanitary/recycling and stormwater rates were the primary drivers behind this increase. The sanitary/recycling portion of this increase was levied to offset the cost associated with increased tipping fees at the landfill, while stormwater rates were increased to assist in funding the low-impact development infrastructure improvements along Tennant Way.
- Public transit received \$1,640 in operating grant funds, with all but \$177 coming from the U.S. Department of Transportation.
- Capital grants and contributions accounted for \$784 in revenue for Business-type activities, which largely went toward the acquisition of new fuel efficient transit vehicles.



Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of 2014, the City of Longview's governmental funds reported combined ending fund balances of \$20,086, an increase of \$191 in comparison with the prior year. Of the \$20,086 total fund balance, approximately 64 percent (\$12,817) constitutes unrestricted fund balance, which is available for spending at the government's discretion. The remainder of fund balance is either nonspendable (\$5,485) or restricted (\$1,784). Amounts restricted are 1) for the purpose of fostering economic development through the granting of loans (\$485); 2) to pay debt service (\$2); 3) for enhancing public safety (\$490); 4) for promoting tourism (\$103); 6) for enhancing parks (\$695); and 7) for enhancing library service (\$9).

The general fund is the chief operating fund of the City of Longview. At the end of the current fiscal year, total fund balance of the general fund was \$11,137. All of the \$11,137 general fund balance was unrestricted and available for spending. As a measure of the general fund's liquidity, it may be

useful to compare the unrestricted fund balance to total fund expenditures. For 2014 the unrestricted fund balance represents 35 percent of total general fund expenditures.

Proprietary funds. The City of Longview's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water-sewer fund at the end of the year amounted to \$8,568, and the net position for the sanitary operation amounted to \$1,523. All of public transit's \$333 in net position was limited to the City's net investment in capital assets. The total increase in net position for all proprietary activity at the fund level in 2014 was \$1,102. The City of Longview has internal service funds which are reported in the fund statements.

General Fund Budgetary Highlights

The amended 2013-2014 biennial budget reflects an increase of \$1,215 from the original appropriation of \$63,968. The 2013-2014 budget amendment can be summarized as follows:

- \$50 increase in grant revenue from the Washington State Department of Ecology Shorelines Master Grant Program.
- \$600 increase in sales tax revenue due to an improving economy and increase in automobile sales.
- \$565 decrease in fund balance

- \$395 increase in general fund expenditures for the acquisition of land to be used as a future site for the construction of a new fire station.
- \$350 increase in general fund expenditures for infrastructure repairs resulting from the Columbia Heights slide.
- \$50 increase in general fund expenditures for the Department of Ecology Shorelines Master program update.
- \$45 increase in general fund expenditures to reflect increased costs associated with the operations of the Kelso-Longview Regional Airport.
- \$375 increase in general fund expenditures for the debt service on the 2013 limited tax general obligation bond issue.

Total actual 2014 revenues in the amount of \$64,917 were 103 percent of the final budgeted 2013-14 revenues of \$63,186. Overall, 2014 revenues were \$1,731 more than projected. This was largely the result of higher than anticipated sales and business and occupation tax revenues and one-time grant revenues. Total 2014 general fund expenditures and transfers amounted to \$62,405, 4 percent less than budget.

Capital Asset and Debt Administration

Capital Assets. The City of Longview's investment in capital assets for its governmental and business type activities as of December 31, 2014, amounts to \$139,269 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities and roads. The City of Longview's investment in capital assets increased \$5,923 for the current year. The \$5,923 overall net increase in capital assets is largely due to the energy savings performance contract project that resulted in sizable increases in buildings and infrastructure.

City of Longview's Capital Assets (net of depreciation)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	5,499	\$ 5,507	\$ 2,622	\$ 2,622	8,121	\$ 8,129
Buildings and systems	8,939	7,526	9,282	9,357	18,221	16,883
Improvements	1,423	903	49,669	47,157	51,092	48,060
Machinery and equipment	1,063	5,870	13,214	13,810	14,277	19,680
Infrastructure	28,794	21,573	-	-	28,794	21,573
Intangibles	-	-	4,064	4,064	4,064	4,064
Construction in progress	<u>3,922</u>	<u>5,193</u>	<u>10,778</u>	<u>9,764</u>	<u>14,700</u>	<u>14,957</u>
Total	<u>\$ 49,640</u>	<u>\$ 46,572</u>	<u>\$ 89,629</u>	<u>\$ 86,774</u>	<u>\$ 139,269</u>	<u>\$ 133,346</u>

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

- A variety of water-sewer construction projects were undertaken during the year. Water-sewer construction project expenditures for 2014 include the replacement of several valve replacements and water mains in the St. Helens neighborhood and along Washington Way; additionally, a roof replacement project at the Hillcrest reservoir was also completed in 2014. Major sewer projects included Ocean Beach Highway sewer main replacement project; in addition to sewer pump station rehabilitation projects on Douglas Street, Hudson Street, and 33rd Avenue.
- Various street infrastructure projects including the Downtown Streetscape project along Commerce Avenue began in 2014; city-wide energy efficient street lighting replacement project; a signal modification project at 14th and Broadway was also underway, in addition to pedestrian safety crosswalk improvements along 15th Avenue. Construction on the Washington Way bridge replacement project began in 2014. The City also kept up its ongoing sidewalk replacement projects.
- In 2014, the City continued with its study and evaluation of flushing alternatives for Lake Sacajawea and design of the Tennant Way streetscape project
- Field and facility improvements at 7th Avenue for Longview Girls Softball and funding for the construction of a new disc golf course at Roy Morse Park
- A variety of energy savings building, mechanical equipment and infrastructure improvements throughout the City.
- Theatre streetscape infrastructure improvements throughout historic downtown Longview.

Additional information on the City of Longview's capital assets can be found in note 6.

Long-term debt. At the end of the current fiscal year, the City of Longview had total bonded debt outstanding of \$26,156. Of this amount, \$16,155 comprises debt backed by the full faith and credit of the government and \$6 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. Remaining bonds outstanding in the amount of \$9,995 are secured solely by specified revenue sources (i.e., revenue bonds).

City of Longview's Outstanding Debt

	General Obligation and Revenue Bonds					
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 16,081	\$ 16,893	\$ 74	\$ 77	\$ 16,155	\$ 16,970
Special assessment debt	6	11	-	-	6	11
Revenue bonds	-	-	9,995	-	9,995	-
Total	<u>\$ 16,087</u>	<u>\$ 16,904</u>	<u>\$ 10,069</u>	<u>\$ 77</u>	<u>\$ 26,156</u>	<u>\$ 16,981</u>

The City of Longview's bonded debt increased \$9,175 (54 percent) during the current fiscal year. The key factor in this increase was the issuance of revenue bonds in the amount of \$9,995. Revenue bonds were issued to finance sewer pump station rehabilitation and replacements and low-impact development stormwater facilities. Principal in the amount of \$817 was retired during 2014.

State statutes limit the amount of non-voted general obligation debt a governmental entity may issue. The City of Longview's remaining capacity for non-voted debt is approximately \$20 million.

Additional information on the City of Longview's long-term debt can be found in note 10.

Economic Factors and Next Year's Budgets and Rates

Longview's economy began to show signs of improvement this past year. Although we continue to see signs of recovery in 2014, the drawn-out recession that has resonated among cities all across America has left its mark on the area's economy. There is no question the prolonged recession has taken its toll on state and local budgets. Fortunately, we have begun to experience a modest turnaround in terms of economic recovery here in Longview. Nevertheless, expenditures are projected to outpace revenues over the next five years. Although faced with fiscal challenges, we here at the City are confident that our sound financial principles will continue to guide us as we move through this time of economic uncertainty. Council's strategic initiatives in conjunction with City's budget model aid in establishing spending priorities and allow us to leverage our fundamental economic strengths and keep us well positioned for recovery and growth opportunities.

During the 2014, the City continued its work on a variety of multifaceted programs and projects which helped it to combat much of the uncertainty surrounding the local economy. Participation in county and statewide economic development organizations coupled with an ongoing partnership with Weyerhaeuser Real Estate Development Company at the City's Mint Farm Industrial Park have allowed Longview to position itself as a prime location for industrial site developments such as

manufacturing, warehousing and distribution. Longview continues to be in the early stages of discovery and only beginning to experience success resulting from its proximity to major markets and transportation infrastructure.

The area's community leaders have known for years that Longview is at the center of a comprehensive network of import/export shipping, warehouse/distribution opportunities, and overland connections. Our on-going efforts to support and strengthen these assets have helped pave the road to a brighter future. To date, Longview and surrounding areas have made excellent progress towards strengthening its transportation infrastructure. One such example is the deepening of the Columbia River shipping channel. Completed in 2009, the project permitted the U.S. Army Corps of Engineers to deepen the Columbia River channel from its current 40 feet to 43 feet allowing vessels both inbound and outbound to load at ship capacity. At the Port of Longview, the completion of a 3.2 mile industrial rail corridor with traffic overpass signifies the Port's most important property investment in years. The Port's rail project improves traffic safety, eases congestion and allows for the completion of rail spurs that connects new property owners to the rail corridor. Another notable transportation project for the City of Longview and the surrounding area is the I-5 and SR-432 interchange – the gateway to Longview and its industrial base. Federal, state and local agencies banded together and secured funding allowing for smoother traffic flows and additional industrial growth. Completed in 2012, the new interchanges create better connections to existing roads, increase capacity, decrease congestion and improve safety.

Longview witnessed modest increases in tax revenue in 2014. Overall tax revenue increased 1.4% percent for the year. The increase in tax revenue is primarily due to improved automobile sales and a bump in utility rates leading to higher utility tax revenue.

During the current year, unreserved fund balance in the general fund increased \$1,019. This increase in fund balance is the result of higher than anticipated revenues combined with expenditure savings on personnel costs, employee health insurance premiums and energy costs from the implementation of energy efficient conservation measures.

For 2014, Longview's utility customers saw the average monthly combined water/sewer/garbage and storm water rate increase 4.5 percent. On average, Longview's utility customers are billed \$140.61 monthly for water, sewer, sanitary/recycling and storm water utilities. This combined rate increase was necessary to sustain Longview's sound fiscal policies and to provide for the utility's capital investments, in addition to offsetting the inflationary cost increases experienced in each of the City's utilities. In April 2013, Longview's citizens witnessed completion of the City's \$33 million Mint Farm Regional Water Supply Project designed to satisfy customer demand for water for at least the next twenty years.

Ongoing challenges for Council and staff continue as we struggle to find that balance between meeting the service demands of our citizens while at the same time acknowledging the call for lower taxes and fees. A strategic Pacific Rim transportation hub, proximity to Portland, Oregon combined with the City's on-going development of the Mint Farm Industrial Park with industrial sites fully serviced by road and utility infrastructure and the City's significant investment in water/sewer infrastructure provide great cause for optimism and serve as the foundation to economic revitalization for all of Longview and its citizens.

A copy of the City's 2015-2016 biennial budget is available and can be viewed on our web site at www.mylongview.com . The budget offers full details of the City's revenue sources and program expenditures over the two-year biennium.

Requests for Information

This financial report is designed to provide a general overview of the City of Longview's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be obtained via the internet at Asklongview.com or by mail at the Department of Finance, City of Longview, PO Box 128, Longview, Washington 98632.

City of Longview

STATEMENT OF NET POSITION

As of December 31, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$1,041,858	\$210,267	\$1,252,125
Investments	18,841,746	15,978,902	34,820,648
Restricted investments	0	8,210,966	8,210,966
Receivables, net	4,527,182	7,729,469	12,256,651
Internal balances (Note 13)	(100,079)	100,079	0
Due from other governments	6,883,354	1,322,453	8,205,807
Inventory/prepayments	0	290,109	290,109
Assets held for resale	0	78,379	78,379
Actuarial funding surplus (Note 7-C)			
Net pension obligation	66,722	0	66,722
Net healthcare obligation	345,389	0	345,389
Capital assets (Note 6)			
Land, intangibles & construction in prog.	9,421,067	17,463,727	26,884,794
Other capital assets, net of depreciation	40,219,429	72,165,422	112,384,851
TOTAL ASSETS	<u>81,246,668</u>	<u>123,549,773</u>	<u>204,796,441</u>
DEFERRED OUTFLOWS			
Deferred loss on bond refundings	184,791	0	184,791
TOTAL DEFERRED OUTFLOWS	<u>184,791</u>	<u>0</u>	<u>184,791</u>
LIABILITIES			
Accounts payable	1,470,958	1,283,314	2,754,272
Due to other governments	2,043	1,336,465	1,338,508
Accrued liabilities	1,115,388	360,927	1,476,315
Other current liabilities	154,074	652,907	806,981
Long-term liabilities (Note 10)			
Special assessment debt with government commitment due within one year	6,000	0	6,000
Other debt due within one year	2,478,980	4,624,719	7,103,699
Other debt not due within one year	19,926,159	44,553,603	64,479,762
TOTAL LIABILITIES	<u>25,153,602</u>	<u>52,811,935</u>	<u>77,965,537</u>
DEFERRED INFLOWS			
Payments received in advance	19,009	0	19,009
TOTAL DEFERRED INFLOWS	<u>19,009</u>	<u>0</u>	<u>19,009</u>
NET POSITION			
Net investment in capital assets	33,132,744	50,284,183	83,416,927
Restricted for:			
Debt service	5,438,120	736,200	6,174,320
Economic development	524,706	0	524,706
Capital projects	300,000	7,474,767	7,774,767
Criminal justice	1,404,086	0	1,404,086
Culture & recreation	394,853	0	394,853
Tourism promotion	103,337	0	103,337
Nonexpendable endowments	18,802	0	18,802
Unrestricted	14,942,200	12,242,688	27,184,888
TOTAL NET POSITION	<u>\$56,258,848</u>	<u>\$70,737,838</u>	<u>\$126,996,686</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$5,245,001	\$1,899,801	\$4,517	\$870	(\$3,339,813)		(\$3,339,813)
Public safety	18,792,086	2,702,844	647,478	0	(15,441,764)		(15,441,764)
Transportation	3,906,118	55,621	520,126	2,392,935	(937,436)		(937,436)
Economic development	1,416,864	559,952	567,819	116,083	(173,010)		(173,010)
Culture and recreation	4,761,466	424,444	159,269	53,504	(4,124,249)		(4,124,249)
Interest on long-term debt	455,425	0	0	0	(455,425)		(455,425)
Total governmental activities	<u>34,576,960</u>	<u>5,642,662</u>	<u>1,899,209</u>	<u>2,563,392</u>	<u>(24,471,697)</u>		<u>(24,471,697)</u>
Business-type activities:							
Water-sewer	17,458,941	19,016,356	0	230,796		\$1,788,211	1,788,211
Sanitation	4,830,205	4,942,746	37,428	0		149,969	149,969
Public transit	4,884,722	3,313,258	1,086,605	553,014		68,155	68,155
Storm water	2,544,560	2,962,860	409,465	0		827,765	827,765
Golf/misc. athletics	623,832	515,960	0	0		(107,872)	(107,872)
Total business-type activities	<u>30,342,260</u>	<u>30,751,180</u>	<u>1,533,498</u>	<u>783,810</u>	<u>(24,471,697)</u>	<u>2,726,228</u>	<u>2,726,228</u>
Total government	<u>\$64,919,220</u>	<u>\$36,393,842</u>	<u>\$3,432,707</u>	<u>\$3,347,202</u>		<u>2,726,228</u>	<u>(21,745,469)</u>
General revenues:							
Taxes:							
Property					8,980,617	0	8,980,617
Business					8,464,856	0	8,464,856
Sales					7,546,449	0	7,546,449
Excise					1,503,945	0	1,503,945
Gambling					71,019	0	71,019
Non program specific grants/contributions					1,210,414	0	1,210,414
Gain on asset dispositions					406,405	0	406,405
Unrestricted investment earnings					41,255	45,299	86,554
Miscellaneous					10,667	0	10,667
Transfers (Note 13)					1,669,825	(1,669,825)	0
Total general revenues and transfers					<u>29,905,452</u>	<u>(1,624,526)</u>	<u>28,280,926</u>
Change in net position					<u>5,433,755</u>	<u>1,101,702</u>	<u>6,535,457</u>
Beginning net position as previously reported					<u>50,603,761</u>	<u>69,857,468</u>	<u>120,461,229</u>
Prior period adjustment (Note 17)					<u>221,332</u>	<u>(221,332)</u>	<u>0</u>
Beginning net position, restated					<u>50,825,093</u>	<u>69,636,136</u>	<u>120,461,229</u>
Net position - ending					<u>\$56,258,848</u>	<u>\$70,737,838</u>	<u>\$126,996,686</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**BALANCE SHEET
GOVERNMENTAL FUNDS**

As of December 31, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$88,992	\$691,918	\$780,910
Investments	8,843,587	3,687,824	12,531,411
Receivables (net)			
Taxes	3,355,228	140,328	3,495,556
Accounts	68,831	7,724	76,555
Assessments	0	260,345	260,345
Notes and contracts	0	171,453	171,453
Due from other funds	516,781	37,857	554,638
Interfund loans receivable	565,000	0	565,000
Due from other governments	0	6,883,354	6,883,354
Total assets	<u>13,438,419</u>	<u>11,880,803</u>	<u>25,319,222</u>
LIABILITIES			
Accounts payable	416,610	877,988	1,294,598
Due to other funds	415,167	119,824	534,991
Interfund loans payable	0	565,000	565,000
Due to other governments	953	274	1,227
Accrued wages payable	983,405	23,528	1,006,933
Other current liabilities	3,893	150,130	154,023
Total liabilities	<u>1,820,028</u>	<u>1,736,744</u>	<u>3,556,772</u>
DEFERRED INFLOWS			
Unavailable revenue-property taxes	461,884	0	461,884
Other unavailable revenue	0	1,195,336	1,195,336
Payments received in advance	19,010	0	19,010
Total deferred inflows	<u>480,894</u>	<u>1,195,336</u>	<u>1,676,230</u>
FUND BALANCES			
Nonspendable	0	5,485,200	5,485,200
Restricted	0	1,783,908	1,783,908
Committed	0	780,172	780,172
Assigned	0	1,645,597	1,645,597
Unassigned	11,137,497	(746,154)	10,391,343
Total fund balances	<u>11,137,497</u>	<u>8,948,723</u>	<u>20,086,220</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION FOR GOVERNMENTAL ACTIVITIES**

As of December 31, 2014

<i>Total fund balances from the Governmental Funds Balance Sheet</i>	\$20,086,220
Capital assets do not meet the definition of current financial resources regarding governmental activities, and therefore are not shown on their fund level balance sheets. This amount reflects the total investment in capital assets, net of accumulated depreciation, and does not include assets from internal service funds which are addressed below.	43,775,463
Other long-term assets are not available to pay for expenditures of the current period, and therefore revenue is deferred in fund statements.	2,170,185
Long-term liabilities, primarily bonds payable, are not due within the current reporting period. Therefore, these liabilities not reported in the balance sheet of governmental funds.	(19,763,926)
Internal service funds are used by management to charge the costs of certain activities which are predominately governmental in nature. The net assets of certain internal service funds are included as governmental activities in the statement of net position.	12,020,703
Net actuarial funding differences for pension and healthcare obligations not included in the balances of governmental fund statements.	(1,965,665)
Accrued interest payable on long-term obligations.	(64,132)
<i>Total net position from the Statement of Net Position</i>	<u><u>\$56,258,848</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

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

For the year ended December 31, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$25,752,518	\$860,479	\$26,612,997
Licenses and permits	804,455	0	804,455
Intergovernmental	1,988,699	2,898,350	4,887,049
Charges for services	3,179,550	31,359	3,210,909
Fines	591,405	1,037,373	1,628,778
Miscellaneous			
Interest earnings	22,528	13,830	36,358
Space and facilities rentals	111,396	23,784	135,180
Contributions from private sources	95,547	113,785	209,332
Special assessments	0	6,461	6,461
Other miscellaneous	15,818	129,318	145,136
Total revenues	32,561,916	5,114,739	37,676,655
Expenditures:			
Current:			
General government	5,349,189	52,612	5,401,801
Public safety	17,295,467	1,033,280	18,328,747
Transportation	2,778,935	23,530	2,802,465
Economic environment	789,958	680,705	1,470,663
Culture and recreation	4,279,044	76,922	4,355,966
Capital outlays	901,720	3,457,240	4,358,960
Debt service:			
Principal	29,800	997,589	1,027,389
Interest and other debt service costs	29,299	426,126	455,425
Total expenditures	31,453,412	6,748,004	38,201,416
Excess (deficiency) of revenues over (under) expenditures	1,108,504	(1,633,265)	(524,761)
Other financing sources (uses):			
Proceeds from disposition of capital assets	1,500	633,903	635,403
Transfers in	573,672	1,163,714	1,737,386
Transfers out	(664,768)	(992,119)	(1,656,887)
Total other financing sources (uses)	(89,596)	805,498	715,902
Net change in fund balances	1,018,908	(827,767)	191,141
Fund balance, January 1	10,118,589	9,776,490	19,895,079
Fund balance, December 31	\$11,137,497	\$8,948,723	\$20,086,220

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2014

<i>Net change in fund balances from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances</i>	\$191,141
 Governmental funds report capital outlays as expenditures while they are reported as assets with their cost allocated to depreciation expense over their useful lives in the statement of activities. This amount reflects the net activities for capital asset reported at the government-wide level.	 3,237,065
 Long-term liabilities are not reported in governmental fund statements. This amount reflects the net activities for long-term liabilities reported at the government-wide level.	 892,189
 Revenues in the statement of activities that do not provide current financial resources that are reported as deferred revenue at the fund level.	 512,523
 The effect of internal service fund activity is eliminated in the government-wide statement of activities. This amount is that portion of internal service fund changes in net assets that is attributable to governmental activities.	 746,371
 Items below reflect expense adjustments not in the current financial resources measurement focus of governmental funds.	
Accrual adjustment for net pension and net healthcare obligations.	(150,293)
Accrual adjustment for interest payable.	4,759
 <i>Change in net position from the Statement of Activities</i>	 <u><u>\$5,433,755</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

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

For the biennium through December 31, 2014

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes	\$49,345,350	\$49,945,350	\$51,243,912	\$1,298,562
Licenses and permits	1,616,540	1,616,540	1,601,989	(14,551)
Intergovernmental	2,881,520	2,931,520	3,665,734	734,214
Charges for services	7,163,110	7,163,110	6,688,420	(474,690)
Fines	1,253,950	1,253,950	1,239,944	(14,006)
Miscellaneous:				
Interest earnings	27,480	27,480	49,752	22,272
Space and facilities rentals	147,980	147,980	199,694	51,714
Contributions from private sources	77,500	77,500	181,082	103,582
Other miscellaneous	22,500	22,500	46,136	23,636
Total revenues	62,535,930	63,185,930	64,916,664	1,730,734
Expenditures:				
Current:				
General government	9,471,300	9,471,300	10,557,121	(1,085,821)
Public safety	33,961,310	33,961,310	34,168,224	(206,914)
Transportation	6,000,120	6,045,120	5,547,961	497,159
Economic environment	2,191,130	2,241,130	1,540,799	700,331
Culture and recreation	9,314,420	9,314,420	8,494,334	820,086
Capital outlays	169,040	914,040	1,020,482	(106,442)
Debt service:				
Principal	59,790	59,790	59,074	716
Interest and fiscal charges	59,880	59,880	59,108	772
Total expenditures	61,226,990	62,066,990	61,447,103	619,887
Excess (deficiency) of revenues over (under) expenditures	1,308,940	1,118,940	3,469,561	2,350,621
Other financing sources (uses):				
Capital asset disposition proceeds	0	0	2,650	2,650
Transfers in	0	0	575,582	575,582
Transfers out	(2,741,040)	(3,116,040)	(958,112)	2,157,928
Total other fin. sources (uses)	(2,741,040)	(3,116,040)	(379,880)	2,736,160
Net change in fund balances	(1,432,100)	(1,997,100)	3,089,681	5,086,781
Fund balance, January 1, 2013	8,047,816	8,047,816	8,047,816	0
Fund balance, December 31, 2014	\$6,615,716	\$6,050,716	11,137,497	\$5,086,781

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

As of December 31, 2014

Page 1 of 2

	WATER- SEWER	SANITARY	PUBLIC TRANSIT
ASSETS			
Current assets:			
Cash	\$78,004	\$40,543	\$42,495
Investments	12,169,691	1,112,796	891,406
Receivables, net	2,739,055	611,141	214
Due from other funds	186,776	128,926	54,770
Due from other governments	346,430	5,069	614,869
Inventory	290,109	0	0
Total current assets:	15,810,065	1,898,475	1,603,754
Noncurrent assets:			
Restricted investments	8,210,966	0	0
Noncurrent receivables	4,016,815	0	0
Assets held for resale	78,379	0	0
Capital assets:			
Land	1,367,668	0	37,400
Buildings	12,590,688	0	749,468
Improvements other than buildings	78,859,572	0	111,578
Machinery and equipment	16,800,604	17,437	6,203
Intangibles	4,064,024	0	0
Construction in progress	9,800,356	0	0
Other plant assets	35,453	0	0
Less: Accumulated depreciation	(40,200,379)	(17,437)	(571,340)
Net capital assets	83,317,986	0	333,309
Total noncurrent assets	95,624,146	0	333,309
TOTAL ASSETS	111,434,211	1,898,475	1,937,063
LIABILITIES			
Current liabilities:			
Accounts payable	691,672	308,131	158,429
Due to other funds	216,018	12,106	0
Due to other governments	34,036	0	1,302,392
Accrued wages payable	156,716	18,386	95,252
Compensated absences	133,732	16,548	33,030
Customer deposits	451,963	0	0
Other current liabilities	198,138	0	1,271
Current portion of long-term obligations	4,336,133	0	0
Total current liabilities:	6,218,408	355,171	1,590,374
Noncurrent liabilities			
Bonds payable, net	10,555,807	0	0
Due to other governments	33,751,745	0	0
Compensated absences	82,375	20,063	13,380
Total noncurrent liabilities	44,389,927	20,063	13,380
TOTAL LIABILITIES	50,608,335	375,234	1,603,754
NET POSITION			
Net investment in capital assets	44,046,786	0	333,309
Restricted for debt service	736,200	0	0
Restricted for capital projects	7,474,766	0	0
Unrestricted	8,568,124	1,523,241	0
TOTAL NET POSITION	\$60,825,876	\$1,523,241	\$333,309

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

As of December 31, 2014

Page 2 of 2

	NONMAJOR ENTERPRISE FUNDS	ENTERPRISE TOTALS	INTERNAL SERVICE FUNDS
ASSETS			
Current assets:			
Cash	\$49,225	\$210,267	\$260,952
Investments	1,805,009	15,978,902	6,310,334
Receivables, net	362,244	3,712,654	10,309
Due from other funds	14,535	385,007	200,524
Due from other governments	356,085	1,322,453	0
Inventory	0	290,109	0
Total current assets:	<u>2,587,098</u>	<u>21,899,392</u>	<u>6,782,119</u>
Noncurrent assets:			
Restricted investments	0	8,210,966	0
Noncurrent receivables	0	4,016,815	0
Assets held for resale	0	78,379	0
Capital assets:			
Land	1,216,791	2,621,859	56,095
Buildings	1,524,085	14,864,241	967,533
Improvements other than buildings	6,562,683	85,533,833	604,786
Machinery and equipment	468,985	17,293,229	13,349,294
Intangibles	0	4,064,024	0
Construction in progress	977,490	10,777,846	119,634
Other plant assets	0	35,453	0
Less: Accumulated depreciation	(4,772,180)	(45,561,336)	(9,232,310)
Net capital assets	<u>5,977,854</u>	<u>89,629,149</u>	<u>5,865,032</u>
Total noncurrent assets	<u>5,977,854</u>	<u>101,935,309</u>	<u>5,865,032</u>
TOTAL ASSETS	<u>8,564,952</u>	<u>123,834,701</u>	<u>12,647,151</u>
LIABILITIES			
Current liabilities:			
Accounts payable	125,082	1,283,314	176,359
Due to other funds	12,152	240,276	364,904
Due to other governments	37	1,336,465	816
Accrued wages payable	90,573	360,927	44,324
Compensated absences	62,652	245,962	61,277
Customer deposits	0	451,963	0
Other current liabilities	1,535	200,944	51
Current portion of long-term obligations	3,100	4,339,233	0
Total current liabilities:	<u>295,131</u>	<u>8,459,084</u>	<u>647,731</u>
Noncurrent liabilities			
Bonds payable, net	70,667	10,626,474	0
Due to other governments	0	33,751,745	0
Compensated absences	99,090	214,908	23,368
Total noncurrent liabilities	<u>169,757</u>	<u>44,593,127</u>	<u>23,368</u>
TOTAL LIABILITIES	<u>464,888</u>	<u>53,052,211</u>	<u>671,099</u>
NET POSITION			
Net investment in capital assets	5,904,087	50,284,182	5,865,032
Restricted for debt service	0	736,200	0
Restricted for capital projects	0	7,474,766	0
Unrestricted	2,195,977	12,287,342	6,111,019
TOTAL NET POSITION	<u>\$8,100,064</u>	<u>\$70,782,490</u>	<u>\$11,976,051</u>
Less: Business-type net position used in Internal Service Fund activities		(44,652)	
Net position of business-type activities		<u>\$70,737,838</u>	

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

For the year ended December 31, 2014

Page 1 of 2

	ENTERPRISE		
	WATER- SEWER	SANITARY	PUBLIC TRANSIT
Operating revenues:			
Charges for services	\$18,986,035	\$4,914,581	\$3,284,205
Miscellaneous	3,101	8,065	25,837
Total operating revenues	18,989,136	4,922,646	3,310,042
Operating expenses:			
Cost of sales and services	12,246,178	4,186,615	4,391,425
Administration	1,773,227	632,696	538,045
Depreciation	3,095,590	2,491	14,815
Total operating expenses	17,114,995	4,821,802	4,944,285
Operating income (loss)	1,874,141	100,844	(1,634,243)
Nonoperating revenues (expenses):			
Interest revenue	41,508	961	1,147
Interest expense	(467,343)	0	0
Operating grant revenue	0	37,428	1,639,619
Disposition of capital assets	(1,575,554)	0	0
Other	27,219	20,100	3,216
Total nonoperating revenues (expenses)	(1,974,170)	58,489	1,643,982
Income (loss) before capital contributions, special items and transfers	(100,029)	159,333	9,739
Capital contributions	230,796	0	0
Transfers in	0	0	0
Transfers out	(289,300)	0	0
Changes in net position	(158,533)	159,333	9,739
Beginning net position as previously reported	61,070,158	1,384,450	348,127
Prior period adjustments	(85,749)	(20,542)	(24,557)
Beginning net position, restated	60,984,409	1,363,908	323,570
Net position, December 31	\$60,825,876	\$1,523,241	\$333,309

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

For the year ended December 31, 2014

Page 2 of 2

	NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE	TOTAL INTERNAL SERVICE
Operating revenues:			
Charges for services	\$3,432,067	\$30,616,888	\$5,889,931
Miscellaneous	34,621	71,624	1,430
Total operating revenues	3,466,688	30,688,512	5,891,361
Operating expenses:			
Cost of sales and services	2,675,869	23,500,087	3,633,485
Administration	388,414	3,332,382	707,121
Depreciation	170,419	3,283,315	858,828
Total operating expenses	3,234,702	30,115,784	5,199,434
Operating income (loss)	231,986	572,728	691,927
Nonoperating revenues (expenses):			
Interest revenue	1,683	45,299	4,896
Interest expense	(3,254)	(470,597)	0
Operating grant revenue	409,465	2,086,512	1,828
Disposition of capital assets	0	(1,575,554)	12,383
Other	12,132	62,667	5,236
Total nonoperating revenues (expenses)	420,026	148,327	24,343
Income (loss) before capital contributions, special items and transfers	652,012	721,055	716,270
Capital contributions	260,447	491,243	0
Transfers in	19,582	19,582	274,218
Transfers out	(85,000)	(374,300)	0
Changes in net position	847,041	857,580	990,488
Beginning net position as previously reported	7,343,507	70,146,242	7,627,927
Prior period adjustments	(90,484)	(221,332)	3,357,636
Beginning net position, restated	7,253,023	69,924,910	10,985,563
Net position, December 31	\$8,100,064	\$70,782,490	\$11,976,051

Change in net position from proprietary activities at the fund level (above)	\$857,580
Change in net position related to business-type activities	244,122
Change in net positions from government-wide business-type activities	1,101,702

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended December 31, 2014

Page 1 of 4

	ENTERPRISE		
	WATER- SEWER	SANITARY	PUBLIC TRANSIT
Cash flows from operating activities:			
Cash flows from customers and users	\$19,481,442	\$5,088,743	\$3,525,687
Interfund services provided	0	0	0
Cash from other sources	68,151	52,459	1,027,965
Cash paid to suppliers	(7,967,217)	(3,798,656)	(2,229,468)
Cash paid to employees	(2,939,556)	(369,871)	(1,730,636)
Interfund services used	(2,050,701)	(270,790)	(1,127,078)
Cash paid for taxes and other penalties	(1,527,791)	(522,150)	(622)
Net cash provided (used) by operating activities	5,064,328	179,735	(534,152)
Cash flows from noncapital financing activities:			
Transfer (in) from other funds	0	0	0
Transfer (out) to other funds	(274,218)	0	0
Net cash provided (used) by noncapital financing activities	(274,218)	0	0
Cash flows from capital and related financing activities:			
Proceeds from debt issuances	11,502,425	0	0
Collection of noncurrent receivables	259,639	0	0
Payments of debt principal	(2,424,973)	0	0
Proceeds from sale of capital assets	0	0	0
Capital contributions	213,071	0	0
Purchase of capital assets	0	0	0
Construction	(8,242,625)	0	0
Interest paid	(467,343)	0	0
Net cash provided (used) by capital and related financing activities	840,194	0	0
Cash flows from investing activities:			
Proceeds from sale of investments	6,718,710	100,000	1,440,000
Purchase of investments	(12,320,000)	(260,000)	(880,000)
Net cash provided (used) by investing activities	(5,601,290)	(160,000)	560,000
Net cash increase (decrease)	29,014	19,735	25,848
Cash and restricted cash, January 1	48,990	20,807	16,648
Cash and restricted cash, December 31	\$78,004	\$40,542	\$42,496

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended December 31, 2014

Page 2 of 4

	ENTERPRISE		
	WATER- SEWER	SANITARY	PUBLIC TRANSIT
<hr/>			
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income (loss)	\$1,874,140	\$100,844	(\$1,634,243)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	3,095,590	2,491	14,815
Expensed capital projects	0	0	0
Miscellaneous nonoperating cash activity	68,151	52,459	1,027,965
(Increase) decrease from:			
Accounts & notes receivable	(67,577)	15,729	0
Due from other funds	(74,190)	98,860	(32,332)
Due from other governments	95,576	33,716	0
Inventory	29,779	0	0
Prepaid expenses	0	0	7,202
Increase (decrease) from:			
Accounts payable	64,349	6,640	53,587
Due to other funds	(47,492)	(131,249)	(88,580)
Due to other governments	(4,173)	0	(45)
Accrued wages payable	9,308	1,052	139,337
Accrued employee benefits	4,589	(170)	(18,819)
Customer deposits	23,275	0	0
Other current liabilities	(6,997)	(637)	(3,039)
Compensated absences	0	0	0
Total adjustments	3,190,188	78,891	1,100,091
Net cash provided (used) by operating activities	\$5,064,328	\$179,735	(\$534,152)
<hr/>			
Noncash Investing, Capital and Financing Activities			
Acquisition of capital assets on account	664,594	0	0
Capital (to) from governmental activities	84,858	0	0
Capital (to) from Water-Sewer	0	0	0
Capital (to) from nonmajor enterprise funds	(15,082)	0	0
Asset disposition receivables	0	0	0
Related party capital and debt participation	3,322	0	0
Nonoperating interest income	11,116	961	1,147

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended December 31, 2014

Page 3 of 4

	NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
Cash flows from operating activities:			
Cash flows from customers and users	\$3,503,974	\$31,599,846	\$285,141
Interfund services provided	0	0	5,686,658
Cash from other sources	65,513	1,214,088	7,064
Cash paid to suppliers	(681,111)	(14,676,452)	(3,498,980)
Cash paid to employees	(1,646,846)	(6,686,909)	(913,894)
Interfund services used	(619,295)	(4,067,864)	(174,033)
Cash paid for taxes and other penalties	(87,963)	(2,138,526)	(6,898)
Net cash provided (used) by operating activities	534,272	5,244,183	1,385,058
Cash flows from noncapital financing activities:			
Transfer (in) from other funds	4,500	4,500	274,218
Transfer (out) to other funds	(85,000)	(359,218)	0
Net cash provided (used) by noncapital financing activities	(80,500)	(354,718)	274,218
Cash flows from capital and related financing activities:			
Proceeds from debt issuances	0	11,502,425	0
Collection of noncurrent receivables	0	259,639	0
Payments of debt principal	(3,309)	(2,428,282)	0
Proceeds from sale of capital assets	0	0	20,180
Capital contributions	0	213,071	0
Purchase of capital assets	(274,290)	(274,290)	(498,902)
Construction	0	(8,242,625)	0
Interest paid	(3,254)	(470,597)	0
Net cash provided (used) by capital and related financing activities	(280,853)	559,341	(478,722)
Cash flows from investing activities:			
Proceeds from sale of investments	205,930	8,464,640	960,000
Purchase of investments	(390,000)	(13,850,000)	(2,100,000)
Net cash provided (used) by investing activities	(184,070)	(5,385,360)	(1,140,000)
Net cash increase (decrease)	(11,151)	63,446	40,554
Cash and restricted cash, January 1	60,375	146,820	220,398
Cash and restricted cash, December 31	\$49,224	\$210,266	\$260,952

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended December 31, 2014

Page 4 of 4

	NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
<hr/>			
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income (loss)	\$231,986	\$572,727	\$691,927
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	170,419	3,283,315	858,828
Expensed capital projects	7,957	7,957	3,846
Miscellaneous nonoperating cash activity	65,513	1,214,088	7,064
(Increase) decrease from:			
Accounts & notes receivable	(53,400)	(105,248)	2,137
Due from other funds	(14,535)	(22,197)	(173,074)
Due from other governments	66,543	195,835	7,266
Inventory	0	29,779	0
Prepaid expenses	0	7,202	0
Increase (decrease) from:			
Accounts payable	66,788	191,364	(27,658)
Due to other funds	(11,188)	(278,509)	50,956
Due to other governments	0	(4,218)	0
Accrued wages payable	5,214	154,911	(3,622)
Accrued employee benefits	(239)	(14,639)	(23,728)
Customer deposits	0	23,275	0
Other current liabilities	(786)	(11,459)	(8,884)
Compensated absences	0	0	0
Total adjustments	302,286	4,671,456	693,131
Net cash provided (used) by operating activities	\$534,272	\$5,244,183	\$1,385,058
<hr/>			
Noncash Investing, Capital and Financing Activities			
Acquisition of capital assets on account	53,883	718,477	384,375
Capital (to) from governmental activities	252,490	337,348	0
Capital (to) from Water-Sewer	15,081	15,081	0
Capital (to) from nonmajor enterprise funds	0	(15,082)	0
Asset disposition receivables	0	0	7,858
Related party capital and debt participation	0	3,322	0
Nonoperating interest income	1,683	14,907	4,896

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**STATEMENT OF FIDUCIARY NET POSITON
FIDUCIARY FUNDS**

As of December 31, 2014

	FIREMEN'S PENSION TRUST FUND	NORTHWEST HEALTH FOUNDATION PRIVATE PURPOSE TRUST FUND	STATE AGENCY FUND
<hr/>			
ASSETS			
Cash	\$32,994	\$8,291	\$122,732
Investments			
State investment pool	865,104	0	0
TOTAL ASSETS	898,098	8,291	122,732
<hr/>			
LIABILITIES			
Accounts payable	1,021	0	0
Accrued wages payable	1,624	0	0
Accrued employee benefits	5,455	0	0
Due to other governments	0	0	122,732
TOTAL LIABILITIES	8,100	0	122,732
<hr/>			
Net position held in trust for healthcare benefits	475,879	0	0
Net position held in trust for pension benefits	414,119	0	0
Net position held for private purpose trust	0	8,291	0
NET POSITION	\$889,998	\$8,291	\$0

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For the year ended December 31, 2014

	FIREMEN'S PENSION TRUST FUND	NORTHWEST HEALTH FOUNDATION PRIVATE PURPOSE TRUST FUND
ADDITIONS		
Contributions:		
Employer - healthcare	\$604,132	\$0
Employer - pension	119,948	0
Other miscellaneous	49,637	750
Total contributions	<u>773,717</u>	<u>750</u>
Interest income:		
Investments	695	0
Totals investment income	<u>695</u>	<u>0</u>
TOTAL ADDITIONS	<u>774,412</u>	<u>750</u>
DEDUCTIONS		
Benefits - healthcare	418,484	0
Benefits - pension	97,924	0
Administration	35,805	0
Other trust agreement payments	0	4,408
TOTAL DEDUCTIONS	<u>552,213</u>	<u>4,408</u>
Change in net position - healthcare	197,768	0
Change in net position - pension	24,431	0
TOTAL CHANGE IN NET POSITON	<u>222,199</u>	<u>(3,658)</u>
Beginning net position	<u>667,799</u>	<u>11,949</u>
Ending net position	<u>\$889,998</u>	<u>\$8,291</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

City of Longview
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Longview have been prepared in conformance with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board as the primary standard setting body for governmental accounting and financial reporting. The City of Longview also follows the Budgeting, Accounting, and Reporting System as developed by the Washington State Auditor's Office designed to promote uniformity among governmental reporting in the State of Washington. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Longview was incorporated on February 14, 1924, and operates under the laws of the State of Washington applicable to a Manager/Council form of government. The City of Longview is a general purpose government and provides services typical of a local municipality. As required by GAAP, the City's financial statements include financial position, results of operations and cash flows for all funds and activities controlled by or dependent upon the City. All financial reporting contained herein is of the City of Longview as the primary government.

The reporting entity of the City of Longview includes only itself, as there is no other organization for which the City is financially accountable. Financial accountability is considered to exist if an agency has voting majority of another's governing board, and also has either the ability to impose its will, or there is presence of financial benefit or burden. Financial accountability may also exist through fiscal dependency which is evidenced by a given entity's inability to approve its budget, levy taxes or set rates, or issue bonded debt without approval by another government.

B. Government-Wide and Fund Financial Statements

The government-wide statements, the statement of net position and the statement of activities, report activities of the primary government in its entirety with the exception of the fiduciary fund category which is only displayed in the basic financial statements at the fund level. As prescribed by GASB Statement #34, interfund activity has been eliminated or reclassified for presenting the government-wide statements. Exceptions to this general rule are transactions representing interfund services provided and used. Elimination of these activities would misstate both the expenses of the purchasing function and the program revenue of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-like activities, which rely primarily on user fees to support their operations. This report for 2014 incorporates the implementation of GASB Statement #67 –Financial Reporting for Pension Plans.

The statement of activities displays the degree to which the direct expenses of a given function are recovered by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from the goods or services of a particular function, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other

revenue items not specifically attributable to any given function are reported instead as general revenues. Indirect costs have been eliminated within the activities of governmental and business-type funds. Such costs that cross between governmental and business-type activities have not been eliminated and are reported as an expense of the applicable function.

Financial statements are provided separately from the basic financial statements for nonmajor governmental and proprietary funds. Major governmental and enterprise funds are excluded from the financial statements for nonmajor funds as they are reported individually in the basic financial statements. For reasons stated above, the fiduciary funds listed below are reported only within the basic financial statements.

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements with the exception of agency funds which have no measurement focus. Under this measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Revenue for grants and similar items are recognized as soon as all imposed eligibility requirements 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 if they are collected before or within 60 days after year-end as being available to pay liabilities of the current period. Major revenue sources applicable to the availability criterion are property taxes, intergovernmental revenues such as grants, and various charges for services. Expenditures generally are recorded when a liability is incurred, as under the accrual method. However, debt service, compensated absences, and claims and judgment expenditures are recorded only when payment is due.

Governmental and business-type activities follow all Governmental Accounting Standards Board (GASB) pronouncements. They also follow Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants as appropriately modified for applicability to the government environment by GASB Statement No. 62.

Interfund activity has generally been eliminated in presenting the government-wide financial statements. Those not eliminated, as stated above, include costs that cross between governmental and business-type activities. Amounts reported as program revenue include 1) charges to customers, 2) operating grants and contributions, including special assessments, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues while general revenues include all taxes. Proprietary funds report operating revenues and expenses separately from those that are non-operating. Operating revenues and expenses generally result from producing and delivering goods or services in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating. Operating revenues for all proprietary funds consist primarily of charges to customers for sales and services. Operating expenses are comprised of personnel services, contractual services, utilities and supplies, and repairing and maintaining as well as depreciating capital assets.

The City of Longview may incur expenses for purposes where both restricted and unrestricted net position is available. In such instances as needed, it is the government's policy to use first restricted net position, then unrestricted net position if still required.

MAJOR FUNDS

The City of Longview currently reports the following as major governmental funds:

- + The General Fund is the general operating fund of the City. It is used to account for all financial resources and transactions of the City, except those required to be accounted for in another fund.

The City of Longview currently reports the following as major proprietary funds:

- + The Water-Sewer Fund accounts for all maintenance, construction, and debt service requirements associated with providing services of the Water-Sewer System.
- + The Sanitation Fund manages the solid waste and recycling programs for the City. Each of these programs is contracted to a private firm providing residential and commercial collection services.
- + The Public Transit Fund reports all activity related to public transit services provided by the City on a cost-reimbursement basis under contract with the Cowlitz Transit Authority (see Note #15 for further detail).

The City of Longview reports these additional fund types:

- + Internal Service Funds are used to account for the financing of goods or services provided to other departments or funds of the City of Longview, or to other governmental units on a cost-reimbursement basis. These funds primarily report the City's rolling stock of equipment and the City's risk management activities.
- + Fiduciary Funds
 - The Firemen's Pension Trust Fund reports resources held in trust for members and beneficiaries of the defined benefit plan that receive postemployment healthcare benefits as well as pension benefits.
 - The Northwest Health Foundation Private Purpose Trust Fund was created to support neighborhood revitalization in the City's highlands area through a private grant.
 - The City's State Agency Fund is custodial in nature and does not report operations having no measurement focus. The State Agency Fund reports assets held for others in an agency capacity consisting mainly of district court funds held for the State of Washington.

See the Nonmajor Governmental Funds, the Nonmajor Enterprise Funds, and the Internal Service Funds sections of this report for a description of the remaining funds operated by the City of Longview.

D. Budgets and Budgetary Accounting

1. Scope of Budget - The city prepares biennial budgets based on two annual elements for the General, Special Revenue, Capital Projects, and Permanent Trust Funds in accordance with the Municipal Code 35A.34 of the Revised Code of Washington that is on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted utilizing the accrual basis of accounting. Council must approve any increase in resource spending above the amounts authorized by the original budget ordinance.

Budget amounts in the basic financial statements include the original budget amounts and all appropriation transfers and adjustments approved by the city manager or council, as required. The city manager is authorized as chief executive officer to approve budget transfers from one department to another of the same fund, or between line items of the same department or fund. Only the city council has the authority to increase or decrease a given fund's annual budget, which can only be executed by city ordinance.

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

Appropriations for general, special revenue, capital projects and permanent funds lapse at the end of the biennium.

2. Procedures for Adopting the Original Budget - The City of Longview's budget procedures are mandated by RCW 35A.34. The steps in the budget process are as follows:

Mid July - Distribution of the budget worksheets and financial information reflecting two prior years actual, and the first six months of the current budget year.

Mid August - Departmental submission of preliminary budget requests and accompanying program narratives, and proposed projects to be included in the plan.

Mid August - Preparation of preliminary revenue estimates.

Mid September - City Manager's staff reviews preliminary budget requests with departments. Revenue estimates are reviewed with finance department.

Late September - City Manager reviews preliminary budget, revenue estimates are further refined, and manager's recommended budget and budget message are prepared.

October - In October, Council sets by ordinance the amount to be raised through property taxes in the ensuing year.

Early November - City Manager presents budget to the City Council.

November through early December - Budget workshops are held with council on the recommended budget. Public hearings concerning the preliminary budget are held in addition to the workshops, which are open to the public.

Mid November - Public hearing concerning proposed budget ordinance.

Second week in December - Adoption of proposed budget.
(Proper public notice is given in advance of all public hearings.)

The final budget as adopted is published early in the ensuing year, distributed to various agencies, the Chamber of Commerce, and made available to all interested citizens.

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

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

Budget amounts shown in the financial statements include the original budget amounts and all appropriations, transfers and adjustments approved by the City Council. Details for the current budget are presented below.

Fund	Original 2013-2014 Budget	Revisions	Revised 2013-2014 Budget
Major Funds			
General	\$ 63,968,030	\$ 1,215,000	\$ 65,183,030
Special Revenue Funds:			
Arterial Street	9,151,160	0	9,151,160
Downtown Parking	233,590	(57,000)	176,590
Economic Development	1,714,370	0	1,714,370
HOME Fund	1,122,750	0	1,122,750
CDBG Entitlement	742,500	0	742,500
Library Grant	0	1,500	1,500
Criminal Justice Assistance	1,298,910	0	1,298,910
Camera Infraction Program	463,240	235,200	698,440
Tourism	87,450	10,000	97,450
Parks and Recreation Mem. Trust	344,800	300,000	644,800
Total Special Revenue Funds	15,158,770	489,700	15,648,470
Capital Projects Funds:			
Capital Projects	660,600	400,000	1,060,600
LID Construction	3,700,000	0	3,700,000
Building Replacement	4,199,130	100,000	4,299,130
Total Capital Projects Funds	8,559,730	500,000	9,059,730
Permanent Funds			
Library Trust	2,600	0	2,600

4. Encumbrances - The City of Longview does not formally integrate encumbrance accounting into its general ledger. For operating funds, accounts not expended within the biennium lapse.

E. Assets, Liabilities and Equities

1. Cash - The City of Longview's cash is considered to include demand deposits, petty cash, and imprest cash, but excludes unavailable deposits with trustees. The City has opted to not include its short-term highly liquid investments as cash equivalents (those investments that can be converted to cash in three months). For more information see Note #4.
2. Investments - See Note #4
3. Receivables - Taxes receivable consist of property taxes and related interest and penalties (See Property Tax Note #5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year as applicable.

Special assessments are recorded when levied. Special assessments receivable consist of current and long-term assessments, and does not include related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. Delinquent special assessment receivable at year end were \$53,945.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due to and From Other Funds; Interfund Loans Receivable and Payable - These accounts include all interfund receivables and payables. Amounts reported as due to/from other funds typically represent balances originating from interfund services provided and used, where interfund borrowings are classified as interfund loans receivable/payable. See Note #13 titled Interfund Transactions for more details.
5. 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.

The Schedule of Due from and Due to other Governmental Units as of December 31, 2014 is as follows:

Due from Other Governments:

<u>Agency</u>	<u>Administering Funds</u>	<u>Amount</u>
Federal	Public Transit	614,869
	Nonmajor governmental	1,015,647
State	Sanitation	5,069
	Nonmajor governmental	392,708
	Nonmajor Enterprise	356,085
Local	Water-Sewer	346,429
	Nonmajor governmental	5,475,000
TOTAL		<u>\$8,205,807</u>

Due to Other Governments:

<u>Agency</u>	<u>Administering Funds</u>	<u>Amounts</u>
State	General Fund	953
	Nonmajor governmental	274
	Nonmajor governmental (long-term) *	597,704
	Water-Sewer	34,036
	Water-Sewer (long-term)	33,751,745
	Water-Sewer current long-term portion	2,066,792
	Public Transit	1,302,392
	Nonmajor enterprise	37
	Internal Service Funds	816
	State Agency Fund **	122,732
TOTAL		<u>\$37,877,481</u>

* Governmental activities reported only in the government-wide statement of net position.

** Reported only at the fund level under the fiduciary fund type.

6. Inventories/Prepaid Items - Inventories in governmental funds consist of expendable materials and supplies held for consumption. Ending inventories in governmental funds are accounted for under the purchases method as an expenditure at the time of acquisition as they are generally immaterial. Prepayments are limited to subscriptions and memberships where expenditure recognition criteria has not been realized and are consequently reported as an asset using the consumption method.

Inventories in proprietary funds are valued by the weighted average method, which approximates the market value. A physical count is taken once at every year end.

7. Restricted Assets. The City of Longview reports restricted assets in connection with the issuance of revenue bonds in the Water-Sewer Fund. As of financial statement presentation date, the Water-Sewer Fund had restricted investments of \$8,210,966 comprised of \$7,474,766 for capital projects and \$736,200 for debt service..

8. Capital Assets and Depreciation

Capital assets include tangible or intangible items used in operations that have a useful life extending beyond the current operating cycle, which the City has defined as one year. Capital assets also must have an initial value of at least \$5,000. Capital assets are comprised of land and land improvements, buildings, improvements other than buildings, machinery and equipment, works of art and historical treasures, and infrastructure. Infrastructure assets are long-lived in nature that normally are immovable and can be preserved for a significant number of years beyond most capital assets. Examples include roads, bridges, signals, landscaping, sidewalks and lighting systems.

Capital assets are capitalized and depreciated in the government-wide financial statements regarding governmental assets, and in the proprietary fund statements regarding proprietary assets. This does not include land, which is never depreciated, or construction in progress, which is depreciated when completed. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements. Capital assets are valued at cost where historical cost records are available and at an estimated historical cost where such records are not available. Donated capital assets are valued at their estimated fair value at the time of donation.

Improvements that materially add to the value or extend the useful life of capital assets are capitalized. Other repairs and maintenance costs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets are depreciated under the straight-line method. The classes of depreciable capital assets as well as their useful lives are as follows:

Buildings	25 – 50 years
Improvements other than buildings	25 – 50 years
Heavy vehicles and equipment	5 – 15 years
Light vehicles	2 - 15 years
Infrastructure	40 – 80 years

9. Deferred Outflows of Financial Resources – GASB Statement 65 mandates separate reporting regarding the consumption of net position that pertains to future periods. The City reports a refunding bond loss at the government-wide level for governmental activities.

10. Accumulated Unpaid Employee Leave Benefits

Sick Leave and Vacation Leave - City employees are credited with sick and vacation leave amounts monthly at rates established by City Ordinance or Union Agreement. Sick leave is accrued at 8 hours per month by employees. Vacation leave is accrued monthly to employees at annual rates ranging from 10 to 30 days, depending upon tenure and union agreements.

The contracts with employees call for the accumulation of vacation leave and sick leave. At termination of employment, employees with required length of service may receive cash payment for all accumulated vacation leave up to a maximum of 480 hours, and a percentage of the unused sick leave after a minimum of 10 years service as described below.

Vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability in the proprietary or fiduciary fund from which it will be paid, while governmental funds only report such liabilities if they have matured. All other vacation leave as well as all sick leave benefits are reported in the Employee Benefits Reserve Internal Service Fund. This fund accumulates resources for the eventual payment of these liabilities with amounts reported as disbursements from the operating funds and revenues to the Employees Benefit Reserve Fund as payments are realized by the reserve fund. In accordance with the provisions of the Governmental Accounting Standards Board's Statement #16, Accounting for Compensated Absences," no sick leave liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

The accumulated unpaid governmental and proprietary leave benefits on December 31, 2014 are listed as follows:

	VACATION	SICK LEAVE	TOTAL
Governmental	\$2,005,063	\$1,251,156	\$3,256,219
Proprietary	360,981	184,536	545,517
Pension Trust	2,849	2,605	5,454
TOTAL	2,368,893	1,438,297	3,807,190
Proprietary Internal Service Fund amounts above reported with governmental activities			84,646

<u>YEARS OF SERVICE</u>	<u>Amount to be paid by City Resolution</u>
Less than 10 years of full time employment	None
After 10 years of full time employment	12.5% of accrued unused sick leave
After 15 years of full time employment	25.0% of accrued unused sick leave
After 20 years of full time employment	37.5% of accrued unused sick leave
After 25 years & more of full time employment	50.0% of accrued unused sick leave

Upon the death of an employee, the beneficiary shall be paid at the 50.0% rate.

11. Deferred Outflows of Financial Resources and Deferred Inflows of financial resources – GASB Statement 65 mandates separate reporting regarding the acquisition of net position that pertains to future periods. Government wide statements report collections from services that are unearned while governmental funds also report services from which collections are unavailable.
12. Long-Term Debt - See Note #10 and the Debt Capacity schedules in the Statistical Section for additional details on long-term debt.
13. Fund Equity - Governmental funds report fund equity as fund balance where proprietary funds and government-wide statements report fund equity as net position. GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishes criteria for reporting governmental fund balances. This standard has not affected the total amount of reported fund balances but has substantially changed the approach to reporting their components. Fund balance is either restricted, classified as nonspendable or restricted, or it is unrestricted, classified as committed, assigned and/or unassigned. These classifications are based primarily on the extent to which the City is bound to observe constraints imposed on the use of governmental fund resources. City policy is that the City Council as the government's highest level of decision making authority must take formal action by ordinance to establish, modify, or rescind amounts reported as committed fund balance. With respect to assigned fund balances, within the City's administrative policy regarding fund balances, the City Manager, the Assistant City Manager, as well as the Finance Director have the authority to assign amounts to specific purposes. The City considers restricted amounts to have been spent when expenditures are incurred for which both restricted and unrestricted fund balance is available. Regarding amounts in the unrestricted fund balance classifications, funds are considered spent first from committed fund balance, followed by assigned, then unassigned fund balances. The City does not have a minimum fund balance policy.

The following displays the composition of governmental fund balances at year end.

	Nonmajor Funds					Total
	General	Special Revenue	Debt Service	Capital Projects	Library Memorial Trust	
Fund balances:						
Nonspendable:						
Loans/contracts receivable	0	40,000	5,435,000	0	0	5,475,000
Permanent fund principal	0	0	0	0	10,200	10,200
Restricted for:						
Tourism	0	103,337	0	0	0	103,337
Community policing	0	489,836	0	0	0	489,836
Economic loan program	0	484,706	0	0	0	484,706
Parks improvements		394,853	0	300,000	0	694,853
Culture and recreation	0	0	0	0	8,602	8,602
Debt service	0	0	2,574	0	0	2,574
Committed to:						
Traffic policing		673,164				673,164
Parking enforcement	0	107,009	0	0	0	107,009
Assigned to:						
Government buildings	0	0	0	634,041	0	634,041
General capital projects	0	0	0	247,953	0	247,953
Public safety	0	134,078	0	0	0	134,078
Economic development	0	628,922	0	0	0	628,922
Debt service	0	0	600	0	0	600
Unassigned:	11,137,497	(746,098)	(54)	0	0	10,391,345
	11,137,497	2,309,807	5,438,120	1,181,994	18,802	20,086,220

NOTE 2 -

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS RECONCILIATION

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

The governmental fund balance sheet is followed by a reconciliation between the fund balances of that statement and the net position for governmental activities as found in the statement of net position. Detail to specific reconciling amounts is listed below.

Capital assets used in governmental fund operations not providing current fund financial resources

Capital assets used in governmental fund operations	\$77,084,410
Less: Accumulated depreciation	(33,308,947)
TOTAL	<u>\$43,775,463</u>

Long-term liabilities not due in governmental funds

Bonds payable, net	(\$16,088,837)
Deferred loss on bond refunding	184,791
Compensated absences not in ISF net position below	(3,256,176)
Due to other governments	(597,704)
Special assessment debt	(6,000)
TOTAL	<u>(\$19,763,926)</u>

Internal service fund net position reported as governmental activities

Total internal service fund net position	\$11,976,051
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Net position reported with business-type activities	44,652
TOTAL	<u>\$12,020,703</u>

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

Detail reconciling the net change in fund balances for governmental funds and the change in net position from governmental activities regarding certain differences is listed below.

Capital assets capitalized and depreciated in government-wide statements

Capital outlays	\$4,358,961
Depreciation expense-Governmental fund operations	(2,334,501)
Book value of assets retired	(228,998)
Contributions to business-type activities	(260,447)
Contributions from private sources	126,496
Contributions from business-type activities	<u>1,575,554</u>
TOTAL	<u>\$3,237,065</u>

Long-term liability activity reported in government-wide statements

Debt payments expensed in fund statements	1,027,389
Amortization of refunding bond loss and bond discount/ premium	(15,330)
Compensated absences not in ISF activities below	(119,870)
TOTAL	<u>892,189</u>

Internal service fund changes in net position attributable to governmental activities

Total internal service fund changes in net position	\$990,488
Changes in net position attributable to business-type activities	<u>(244,122)</u>
TOTAL	<u>746,366</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City of Longview. An explanation of deficit fund equity balances, as previously noted, is provided in Note #14.

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

The City of Longview's deposits are entirely covered by Federal Depository Insurance or by the Washington Public Protection Commission Act of 1969. Deposits are guaranteed in case of default, under the act, by all other public depositories operating in the state as to both the amount on deposit plus any accrued interest. The City's consolidated cash balances as of December 31, 2014, were \$1,416,142 which consists of \$1,252,125 as shown on the Statement of Net position, and \$164,017 as reported in the Statement of Fiduciary Net position. The average daily balance maintained during the year was

\$3,006,890 which represents a compensating balance to cover banking services as no direct charges are paid by the City.

INVESTMENTS

Washington State statutes authorize the City to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, bankers' acceptances, repurchase agreements, time certificates of deposit, and the State Treasurer's Local Government Investment Pool (LGIP). The LGIP is not SEC-registered, but regulated under administrative policy by the Washington State Treasurer's Office with investment policies and procedures for statutory compliance approved by an oversight advisory board. The fair value of the City's position in the pool is equal to the value of the pool's shares. Additionally, the Firemen's Pension Fund is authorized to invest in obligations of Federal, State, and local government owned public utilities, and in corporate bonds rated A or better by Standard & Poor's Corporation, or A or better by Moody's Bond Ratings.

As of financial statement presentation date, the City's investments were in the Washington State Treasurer's Investment Pool (LGIP). The City's investment in the State's investment pool is not rated. However, the investment pool's investment policy limits the types of securities available for investment. These investments totaled \$43,896,718 representing their cost with a fair value equal to their carrying value. This amount consists of \$43,031,614 as shown in the Statement of Net Position, and 865,104 as reported in the Statement of Fiduciary Net position. If applicable, where fair value differs from cost, quoted market prices are used as basis to estimate fair value. The interest-rate risk assumed by the City is equal to the average maturity of the LGIP's investments, which at financial statement presentation date was 50 days. The City has no formally adopted investment policy regarding the investment risks in which it is exposed.

In accordance with generally accepted accounting principles, the City's investments are reported at fair value on the balance sheet. Consequently, any changes in the fair value of investments are recognized as revenue in the operating statement. For financial reporting, such changes in the fair value of investments have not been separated from interest income representing realized gains and losses.

NOTE 5 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

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

Property taxes are recorded as a receivable when levied, offset in the fund financial statements by a deferred inflow representing amounts unavailable for expenditure. At year end, property tax revenues are recognized for collections to be distributed by the county treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City of Longview may levy up to \$ 3.60 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

1. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent due to revaluation, the levy rate will be decreased.
2. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City of Longview's property tax assessment for 2014 collection was \$3.423604 per \$1,000 on an assessed valuation of \$2,532,716,797 for a total regular levy of \$8,671,020.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	5,506,797	210,087	218,370	5,498,514
Construction in progress	5,193,252	3,930,150	5,200,850	3,922,553
Total capital assets, not being depreciated	10,700,049	4,140,237	5,419,220	9,421,067
Capital assets, being depreciated:				
Buildings	14,873,622	2,390,031	113,460	17,150,193
Improvements other than buildings	2,830,862	214,203	14,425	3,030,640
Machinery and equipment	17,107,825	1,130,006	620,332	17,617,499
Infrastructure	41,091,065	3,871,292	0	44,962,357
Total capital assets being depreciated	75,903,374	7,605,532	748,217	82,760,689
Less accumulated depreciation for:				
Buildings	7,060,823	460,626	102,832	7,418,617
Improvements other than buildings	1,678,006	131,585	14,425	1,795,166
Machinery and equipment	3,769,512	1,090,025	566,604	4,292,933
Infrastructure	27,523,451	1,511,093	0	29,034,544
Total accumulated depreciation	40,031,792	3,193,329	683,861	42,541,260
Total capital assets, being depreciated, net	35,871,582	4,412,204	64,356	40,219,429
Governmental activities capital assets, net	46,571,631	8,552,441	5,483,576	49,640,496

Depreciation expense was charged to functions as follows:

General government	506,908
Public Safety	317,336
Transportation	1,709,039
Economic Environment	6,056
Culture and Recreation	653,990
Total governmental activities depreciation expense	3,193,329

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	2,621,858	0	0	2,621,858
Construction in progress	9,764,120	7,209,370	6,195,645	10,777,845
Intangibles	4,064,024	0	0	4,064,024
Total capital assets, not being depreciated	16,450,002	7,209,370	6,195,645	17,463,727
Capital assets, being depreciated:				
Buildings	14,540,500	323,743	0	14,864,243
Improvements other than buildings	80,910,895	4,622,940	0	85,533,835
Machinery and equipment	17,115,648	177,582	0	17,293,230
Other plant assets	35,453	0	0	35,453
Total capital assets being depreciated	112,602,496	5,124,265	0	117,726,761
Less accumulated depreciation for:				
Buildings	5,182,946	399,628	0	5,582,574
Improvements other than buildings	33,753,779	2,110,579	0	35,864,358
Machinery and equipment	3,305,845	773,108	0	4,078,953
Other plant assets	35,453	0	0	35,453
Total accumulated depreciation	42,278,023	3,283,315	0	45,561,338
Total capital assets, being depreciated, net	70,324,473	1,840,950	0	72,165,423
Business-type activities capital assets, net	86,774,475	9,050,320	6,195,645	89,629,150

Depreciation expense was charged to functions as follows:

Water-sewer	3,095,590
Sanitation	2,491
Public transit	14,815
Storm water	128,444
Golf/misc. athletics	41,975
Total business-type activities depreciation expense	3,283,315

NOTE 7 - PENSION PLANS

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

A. Public Employees' Retirement System (PERS)

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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 the State Legislature.

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

PERS 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 members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plans 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, will less than five years to live.

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, 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 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, or at the age of 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan I members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury. The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65. PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 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. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. 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 fiscal 2013, the DRS' PERS Plan 3 contributions were \$99+ million while plan refunds paid out were \$69.4 million.

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years, 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 and were hired before May 1, 2013, 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, 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 year old, and were hired before May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plans 2 and 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 benefits amounts are actuarially reduced for each year that the member’s age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at three percent annually.

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

A one-time duty related death benefit is provided to the beneficiary of 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 of infection that arose naturally and proximately out of the member’s covered employment, if found eligible by the Department of Labor and Industries.

The City of Longview has no PERS employees or retirees participating in the optional Judicial Multiplier Program.

There are 1,176 participating employers participating in PERS. [1] Membership in PERS consisted of the latest actuarial valuation date for the plans 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	150,706
Active plan members non-vested	<u>101,191</u>
Totals	<u>368,272</u>

Funding Policy

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

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

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

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</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%.

** Plan 3 defined benefit portion only.

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

Both the City of Longview and the employees made the required contributions. [2] The City of Longview's required contribution for the years ended December 31, were as follows:

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</u>
2014	58,594	967,051	84,915
2013	91,811	1,309,947	116,987
2012	92,605	1,158,627	88,612

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans I and II

Plan Description

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

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

joined on or after October 1, 1977, are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings 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</u>
20+	2.0%
10-20	1.5%
5-10	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 I provides death and disability benefits. Death benefits for survivors of Plan I 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 allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) 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 I 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 age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per each year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years

of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced the choice of survivor option and for each year that the member’s age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A disability benefit equal to 70 percent of their FAS, subject to offsets for workers’ compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

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

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOPP Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws. LEOPP members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following of the latest 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
Vested active plan members	16,830
Nonvested active plan members	<u>1,600</u>
Totals	<u>29,640</u>

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2013, the state contributed \$54.8 million to LEOFF Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

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

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</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 of Longview and the employees made the required contributions. The City of Longview's required contributions for the years ended December 31, were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2014	0	1,271,683
2013	0	1,241,215
2012	0	1,223,383

C. Other Local Government Pension System - Firemen's Pension Fund

Plan Description:

The City of Longview is also the administrator of a pension retirement system called the Firemen's Pension Plan. The Firemen's Pension Plan is a single employer defined benefit retirement plan limited to firefighters and beneficiaries employed before March 1, 1970. It is a closed plan that provides pension and post-employment health care benefits some of which can be in excess of LEOFF benefits to LEOFF members hired prior to October 1, 1977.

No new employees have been covered by this plan since March 1, 1970. Pension obligations for all firefighters retired since March 1, 1970, whether hired before or since that same date, have been assumed by the State of Washington Law Enforcement Officers' and Firefighters' Retirement System (LEOFF), with the exception of certain minimal benefits in excess of the LEOFF benefits.

The LEOFF act provides that members are vested after five years of service and are eligible for service retirement after working a minimum of five years or more and are at least age 50. Under both LEOFF and the prior pension act (RCW 41.18), which is funded from the Firemen's Pension Fund, members are eligible for disability retirement if disabled for a minimum of six months. Under RCW 41.18, members are eligible for benefits after completing 25 years of service. Since there have been no new employees

eligible for retirement benefits under RCW 41.18 since 1970, and no new employees eligible for provisions of LEOFF I retirement since October 1, 1977, all employees are fully vested.

The Firemen's Pension Trust Fiduciary Fund is used to account for the defined benefit plan. The activities of this plan are reported using the accrual basis of accounting with benefits and refunds of the defined benefit pension plan recognized when due in accordance with the plan. Both the pension and post-retirement healthcare benefits components are reported on an actuarial funding basis regarding their respective annual required contributions. Currently, a stand-alone report is not issued, and no other entity reports the balances or activities of the plan. The authority for funding the plan is addressed by RCW 41.26, which directs the City to compare benefits payable, and cover any excess not paid by the LEOFF pension system. The funding requirements of the employer are actuarially determined, and can be referenced through the schedules that are presented at the later part of this note. Funding for the plan arises from three primary sources: 45% of the tax on fire insurance premiums collected by the State is earmarked by State law for distribution to cities for this purpose, interest earnings on investments and biennially budgeted contributions from the City's General Fund addressed earlier as employer contributions. The fund did realize on behalf payments from taxes on fire insurance premiums during the fiscal period of \$43,899. The costs of administering the plan are financed through resources accumulated from these funds. The Firemen's Pension Fund makes three types of payments (1) pensions to eligible members or beneficiaries retired prior to March 1, 1970, (2) amounts to certain eligible members or beneficiaries retired after that date if the amount received from LEOFF does not equal or exceed the amount entitled from the Firemen's Pension Fund, and (3) medical services for both active and retired firefighters, excluding those hired since October 1, 1977. The medical services are an obligation that may be paid directly from the City's General Fund if so desired. The pension benefits are tied to the current pay, rates for the rank the members held at retirement and/or the cost of living index. Benefits are established in accordance with RCW's 41.16, 41.18, 41.20, and 41.26.

Benefits are calculated based on length of service (2% for each year of service, or 50% flat rate for disability retirees) and on the final average salary (calculated over the last two years of credited service). Each firefighter in service on March 1, 1970 receives the greater of benefits payable under the LEOFF system and the benefits available under the old law. Where benefits under the old law exceed those under LEOFF, the excess benefits are paid by the Firemen's Pension Fund of the City.

Post-retirement medical benefits are available to firefighters and law enforcement officers hired before October 1, 1977, only. For retirees hired before June 8, 1961, only medical expenses that are directly related to their disability retirement are eligible for payment. The City will also pay any expense in excess of those covered by the medical insurance carrier. All benefits are funded on a pay-as-you-go basis. Firefighters hired on or after October 1, 1977, are covered entirely by the LEOFF system with no city obligation for either retirement allowance or medical expenses. The City's pension fund covers its membership obligations for full or partial retirement allowances under LEOFF Plans 1 and 2. Obligations for medical expenses are funded for the most part by group insurance. Medical expenses include medical, hospital and nursing care not payable by workmen's compensation, social security or group insurance.

Investment policies, with respect to Firemen's Pension Fund assets, follow those that pertain to the City as a whole which conform in all respects to the Revised Code of Washington provision applicable to the investment of public funds. These include procedures and authority for establishing and amending investment policy decisions as well as asset allocation policies. Currently, all investments reported by the funds are those of the State of Washington Local Government Investment Pool. There were no significant investment policy changes during the period. The annual money-weighted rate of return on

pension plan investments for the fiscal period was 1.7125%. This rate of return reflects investment performance, net of pension plan investment expenses and adjusted for the changing amounts actually invested. See Note 4 for additional information on investments.

Current membership in the Firemen's Pension Fund is comprised of the following:

<u>Group</u>	<u>Plan members</u>
Retirees and beneficiaries currently receiving	
Medical and/or pension benefits	42
Active employees fully vested	0
The LEOFF Act requires a varying obligation of the city for benefits paid to Firefighters:	
1. Firefighters and beneficiaries hired before, but not retired on March 1, 1970 receive retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the city. The city also pays the reasonable cost of necessary medical expenses of the retiree only, for life.	24
2. For firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the city is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.	18

Pension Liability Including Actuarial Methods and Significant Assumptions

Significant assumptions and other inputs to measure the total pension liability include inflation at 2.5 %, salary increases at 3.0% and cost of living adjustments at 2.5%. Mortality assumptions incorporate RP 2000 mortality tables Scale BB tables for projections. The City’s actuarial study used rates from 7.25% in 2015 grading down 0.25% per year to an ultimate trend rate of 5.0%. The discount rate used in the measurement of the total pension liability was 3.5% to represent both the expected return on assets for the funded portion of the benefit obligation and 3.5% to represent the long-term municipal bond yield for the unfunded portion. Cash flow projection of benefit payments, fire insurance premium taxes, property tax contributions, and investment experience assume a fully funded plan through 2030. The net pension liability at plus 1% of the discount rate is \$1,090,000, while it is \$1,404,000 at minus 1% of the discount rate. The total pension plan liability is based on an actuarial valuation date of December 31, 2014. The actuarial cost method used was the entry age cost method while the actuarial value of assets used was equal to the market value of assets.

Supplementary Schedules

Listed below is detail describing the actuarial methods and assumptions used to determine the City’s obligation and funding status regarding the Firemen’s Pension Fund. This information shows that over the past few years, the funded ratio of both the pension and healthcare components have been decreasing. It should also be noted that the projection of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

SCHEDULE OF NET PENSION OBLIGATION & EMPLOYER CONTRIBUTIONS

	2014	2013	2012
Annual Required Contribution (ARC)	\$75,708	\$79,364	\$76,312
Interest on Net Pension Oblig. (NPO)	(829)	(931)	(991)
Adjustment to Net Pension Obligation	2,033	1,840	1,957
Annual Pension Cost (APC)	76,912	80,272	77,278
Employer contributions	119,948	80,670	75,790
Percentage of ARC contributed	158.4%	101.6%	99.3%
Percentage of APC contributed	156.0%	100.5%	98.1%
Increase (decrease) in NPO	(43,037)	(398)	1,488
Beginning Net Pension Obligation	(23,685)	(23,287)	(24,775)
Ending Net Pension Obligation	(\$66,722)	(\$23,685)	(\$23,287)

SCHEDULE OF PENSION FUNDING PROGRESS

	2014	2013	2012
Actuarial accrued liability	\$1,648,446	\$1,409,204	\$1,409,204
Actuarial value of assets	414,119	389,688	62,897
Unfunded actuarial liability (UAL)	1,234,327	1,019,516	1,346,307
Funded ratio	25.1%	27.7%	4.5%
Covered payroll	N/A	N/A	N/A
UAL as a percentage of covered payroll	N/A	N/A	N/A

SCHEDULE OF NET HEALTHCARE OBLIGATION & EMPLOYER CONTRIBUTIONS

	2014	2013	2012
Annual Required Contribution (ARC)	\$479,863	\$668,517	\$642,805
Interest on Net Healthcare Oblig. (NHO)	(8,154)	(9,225)	(9,770)
Adjustment to Healthcare Obligation	19,993	18,219	19,295
Annual Healthcare Cost (AHC)	491,702	677,510	652,330
Employer contributions	604,132	679,835	638,703
Percentage of ARC contributed	125.9%	101.7%	99.4%
Percentage of AHC contributed	122.9%	100.3%	97.9%
Increase (decrease) in NHO	(112,430)	(2,325)	13,627
Beginning Net Healthcare Obligation	(232,959)	(230,634)	(244,261)
Ending Net Healthcare Obligation	(\$345,389)	(\$232,959)	(\$230,634)

SCHEDULE OF HEALTHCARE FUNDING PROGRESS

	2014	2013	2012
Actuarial accrued liability	\$8,302,554	\$11,875,796	\$11,875,796
Actuarial value of assets	475,879	596,963	530,056
Unfunded actuarial liability (UAL)	7,826,675	11,278,833	11,345,740
Funded ratio	5.7%	5.0%	4.5%
Covered payroll	N/A	N/A	N/A
UAL as a percentage of covered payroll	N/A	N/A	N/A

Listed below is financial statement information for the current fiscal period on the individual pension and healthcare plans that comprise the activity of the Firemen's Pension Fund.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIREMEN'S PENSION FUND**

	PENSION TRUST	HEALTHCARE TRUST	TOTAL
ASSETS			
Cash	\$15,352	\$17,642	\$32,994
Investments			
State investment pool	402,536	462,568	865,104
TOTAL ASSETS	417,888	480,210	898,098
LIABILITIES			
Accounts payable	475	546	1,021
Accrued wages payable	756	868	1,624
Accrued employee benefits	2,538	2,917	5,455
TOTAL LIABILITIES	3,768	4,332	8,100
Net position held in trust	414,119	475,879	889,998
NET POSITION	\$414,119	\$475,879	\$889,998

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIREMEN'S PENSION FUND**

	PENSION TRUST	HEALTHCARE TRUST	TOTAL
ADDITIONS			
Contributions:			
Employer	\$119,948	\$604,132	\$724,080
Other miscellaneous	8,223	41,414	49,637
Total contributions	128,171	645,546	773,717
Interest income:			
Investments	115	580	695
Totals investment income	115	580	695
TOTAL ADDITIONS	128,286	646,126	774,412
DEDUCTIONS			
Benefits	97,924	418,484	516,408
Administration	5,931	29,874	35,805
TOTAL DEDUCTIONS	103,855	448,358	552,213
Change in net position	24,431	197,768	222,199
Beginning net position	389,688	278,111	667,799
Ending net position	\$414,119	\$475,879	\$889,998

**SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS**
Last 10 Fiscal Years *

Total pension liability	
Service cost	\$0
Interest	52,458
Changes of benefit terms	243,174
Expected and actual experience differences	93,739
Benefit payments	(103,855)
Net change in total pension liability	285,516
Beginning total pension liability	1,363,383
Ending total pension liability (a)	\$1,648,899
Plan fiduciary net position	
Contributions - employer	\$128,171
Net investment income	115
Benefit payments	(103,855)
Net change in plan fiduciary net position	24,431
Beginning plan fiduciary net position	389,688
Ending plan fiduciary net position	\$414,119
Ending net pension liability	\$1,234,780
Plan fiduciary net position as a percentage of the total pension liability	25.1%
Covered employee payroll	\$0
Net pension liability as a percentage of above	N/A

SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years *
Numbers in thousands of dollars

	2014
Actuarially determined contributions	\$556
Contributions in relation to the actuarially determined contributions	726
Contribution deficiency (excess)	(\$170)
Covered employee payroll	0
Contribution as a percentage of above	N/A

SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN
Last 10 Fiscal Years *

2014
1.17125%

* Information presented since implementation of GASB 67.

NOTE 8 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Law Enforcement and Firefighters Plan I

The City of Longview also provides other post employment benefits (OPEB) to all retired law enforcement officers hired prior to October 1, 1977 through participation in the Law Enforcement and Firefighters Plan I

(LEOFF I). There are no current employees with all retirees being former police officers as all would be applicable firefighters are covered within the pension plan stated in Note 7. The system functions like a cost-sharing multiple employer plan, but has been determined by GASB to be reported under GASB Statement 45 as an agent multiple employer plan. The State administered plan does not issue stand-alone reports and is not included in the financial reports of any other entity.

The City of Longview reimburses one hundred percent of the amount of validated claims for medical, and hospitalization costs incurred by pre-Medicare retirees. State statute provides that the City's responsibility for medical payments of LEOFF I retirees is secondary to any other coverage retirees receive or are eligible to receive. The City recognizes a potential savings exists when retirees utilize Medicare as primary coverage and the City for secondary coverage and ineligible expenses. Therefore, upon reaching age 65, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2014, the City's cost for these Medicare premiums was \$28,323. This expenditure represents a cost of \$104.90 per month for 23 LEOFF I retirees.

Funding obligations for contributions to the plan are established and amended by state statute. The City's OPEB cost is based on the annual required contribution (ARC) of the employer which was \$762,642 for 2014. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities. The City has no active employees covered by LEOFF I with no required contribution from plan members. See the following Schedule of Employer Contributions and Net OPEB Obligation for the City's OPEB cost, its contributions to the plan, and its net OPEB obligation. The General Fund is typically used to liquidate this portion of the City's OPEB obligation.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision. The schedule of funding progress that follows presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Projections of benefits for financial reporting purposes are based on the substantive plan, as understood by the employer and plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Law Enforcement and Firefighters Plan I Actuarial and Related Supplementary Information

ACTUARIAL METHODS & SIGNIFICANT ASSUMPTIONS

The City has elected to use the alternative measurement method as designed by the Washington Office of the State Actuary to calculate the annual required contribution (ARC) of the employer and related information as permitted by GASB Statement 45. The following assumptions used for determining the actuarially accrued liability are individually and collectively reasonable for the purposes of the valuation. Termination and mortality rates were assumed to follow the LEOFF I termination and mortality rates used in the June 30, 2009 actuarial report issued by the Office of the State Actuary (OSA). Please reference this report for applicable rates and assumptions used to derive reported calculations. Healthcare costs and trends were determined by an independent actuary and used by OSA in the state-wide LEOFF I medical study performed in 2011. The

actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit, with results based on grouped data of 4 active and 4 inactive groupings.

SCHEDULE OF EMPLOYER CONTRIBUTIONS & NET OPEB OBLIGATION **

	2014	2013	2012
Annual Required Contribution (ARC)	\$762,642	\$802,159	\$892,647
Interest on Net OPEB Obligation (NOO)	93,241	81,493	68,836
Adjustment to Net OPEB Obligation	(192,933)	(168,624)	(142,436)
Annual OPEB Cost (AOC)	662,950	715,028	819,047
Employer contributions	357,190	453,961	537,795
Percentage of ARC contributed	46.8%	56.6%	60.2%
Percentage of AOC contributed	53.9%	63.5%	65.7%
Increase (decrease) in NOO	305,760	261,067	281,252
Beginning Net OPEB Obligation	2,072,016	1,810,949	1,529,696
Ending Net OPEB Obligation	\$2,377,776	\$2,072,016	\$1,810,949

SCHEDULE OF OPEB FUNDING PROGRESS **

	2013	2013	2012
Actuarial accrued liability	\$9,586,620	\$9,586,620	\$9,586,620
Actuarial value of assets	0	0	0
Unfunded actuarial liability (UAL)	9,586,620	9,586,620	9,586,620
Funded ratio	0.0%	0.0%	0.0%
Covered payroll	N/A	N/A	N/A
UAL as a percentage of covered payroll	N/A	N/A	N/A

B. Association of Washington Cities Employee Benefit Trust

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

The Trust provides that contribution requirements are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$830 per month for non-Medicare enrolled retiree only coverage, \$1,667 for non-Medicare enrolled retiree and spouse coverage, \$1,162 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$647 for Medicare-enrolled retiree and spouse coverage. Participating employers are required contractually to contribute at a rate assessed each year by the Trust. The City's contribution to the Trust for the year ended December 31, 2013 was \$1,687,354 which equaled the required contributions for the year.

NOTE 9 - RISK MANAGEMENT

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed the Washington Cities Insurance Authority (WCIA) on January 1, 1981 in which the City of Longview is a member. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 Members. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

The Insurance Reserve Internal Service Fund is used to account for the City's risk management activities, which is responsible for collecting interfund premiums, purchasing insurance policies, and administering claim settlements. Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, 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 is subject to the 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.

The City has experienced no significant reductions in insurance coverage from coverage in the prior year by major risk category, and has incurred no settlements that exceeded insurance coverage in any of the preceding three years.

Standard property insurance coverage for buildings and personal property, automobile physical damage, fidelity bonds, 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 member's deductible up to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the Interlocal Agreement, 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. These revenues directly offset portions of the membership's annual assessment.

WCIA is governed by a Board of Directors, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA. The City retains no risk as risk transfers to WCIA resulting in no unpaid claims for which the City is financially liable.

Other Self-Insurance Funds

The City is self-insured for claims regarding unemployment insurance and workers compensation which are administered by third parties. Resources set aside as of financial statement presentation date for unemployment claims are approximately \$250,000 while no funds are specifically set aside for workers compensation claims

which are administered through the activities of the Insurance Reserve Fund. The City purchases excess workers compensation insurance with policy limits of \$1,000,000 and a deductible of \$500,000. The City has realized no claims to date that have exceeded insurance coverage but did close a workplace injury claim in early 2014 that was open from 2005 for just over \$818,000.

NOTE 10 - LONG-TERM LIABILITIES

A. General Obligation, Revenue, and Special Assessment Bonds

General Obligation bonds are a direct obligation of the City for which its full faith and credit are pledged. The debt service on general obligation bonds is paid from Debt Service as well as other specific governmental funds. Debt Service for voter-approved issues is funded by special property tax levies, while debt service for City Council authorized issues is funded from regular property taxes.

Revenues bonds are created by ordinance, adopted by the City Council, and financed from Enterprise Fund revenues pledged as security for the repayment of the revenue bonds.

Special Assessment bonds are created by ordinance, adopted by the City Council, and financed by assessments on property owners. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The City's obligation does not extend beyond the Guaranty Fund assets.

B. Changes in Long-Term Liabilities

The accompanying schedule lists the City's debt transactions for 2014 on principal obligation only.

	Balances Forward (1)	Increases	Decreases	Ending Balances	Due within one year
Governmental activities					
General obligation bonds	\$16,892,923	\$0	\$811,691	\$16,081,232	\$851,805
unamortized (discount) premium	7,674	0	69	7,605	69
Total general obligation bonds	16,900,597	0	811,760	16,088,837	851,874
Special assessment debt with government commitment	11,000	0	5,000	6,000	6,000
Intergovernmental loans	808,402	0	210,698	597,704	147,340
Compensated absences (2)	3,136,305	2,263,790	2,059,273	3,340,822	1,479,766
Net OPEB obligation (3)	2,072,016	662,950	357,190	2,377,776	0
Total governmental activities	\$22,928,320	\$2,926,740	\$3,443,921	\$22,411,139	\$2,484,980
Business-type activities					
Revenue bonds	\$0	\$9,995,000	\$0	\$9,995,000	\$325,000
unamortized (discount) premium	0	932,428	0	932,428	46,621
Total revenue bonds	0	10,927,428	0	10,927,428	371,621
General obligation bonds	77,076	0	3,309	73,767	3,195
Intergovernmental loans	37,186,526	672,766	2,040,755	35,818,537	2,066,793
Compensated absences	583,882	188,609	311,621	460,870	285,391
Pollution remediation obligations	2,281,936	0	384,217	\$1,897,719	1,897,719
Total business-type activities	\$40,129,420	\$11,788,803	\$2,739,902	\$49,178,321	\$4,624,719

1) See Note 17 for additional details

2) Repaid by the home fund of the applicable employee - typically the General Fund

3) See Note 8.A for additional details

C. General Obligation Bonds & Other General Obligation Debt

General Obligation Bonds Outstanding as of December 31, 2014

\$8,095,000 - 2007 Limited Tax General Obligation Bonds due in installments of \$105,000 to \$510,000 through June of 2032 with interest at 4.00% to 5.00%. 6,560,000

\$7,455,000 – 2010 Limited Tax General Obligation Bonds due in installments of \$115,000 to \$435,000 through December of 2035 with interest at 3.10% to 5.30%. 6,350,000

\$3,560,000 – 2013 Limited Tax General Obligation Bonds due in installments of \$215,000 to \$280,000 through December 2028 with Interest of .7% to 4.08%. 3,245,000

Total General Obligation Bonds Outstanding **\$16,155,000**

Other General Obligation Debt:

\$1,500,000 - Public Works Trust Fund Loan.

Proceeds were utilized to finance in part the construction of roadways, utilities and other site improvements for the Mint Farm Industrial Park. Annual interest payments of 2% per annum on the outstanding principal balance with final payment due July 1, 2017. Payment for this Public Works

Trust Fund Loan is provided by the HUD Fund. 321,428

 \$500,000 – Community Economic Revitalization Board Loan.
 Proceeds were used to finance in part the construction of
 Roadways, utilities and other site improvements for the Mint
 Farm Industrial Park. Annual interest payments of 6% per annum
 on the outstanding principal balance with final payment due
 July 1, 2019. Payment for this loan is provided by the HUD Fund. 226,593

\$160,000 - – Community Economic Revitalization Board Loan.
 Proceeds were used to finance in part the construction of
 Roadways, utilities and other site improvements for the Mint
 Farm Industrial Park. Annual interest payments of 1% per annum
 on the outstanding principal balance with final payment due
 in January of 2018. Payment for this loan is provided by the HUD Fund. 49,683

Total Other General Obligation Debt Outstanding **\$597,704**

The annual requirements for outstanding general obligation debt are as follows:

GENERAL OBLIGATION DEBT

Year ending December, 31	Bonds		Other	
	Principal	Interest	Principal	Interest
2015	855,000	641,644	147,340	20,683
2016	705,000	616,918	166,147	15,967
2017	745,000	591,604	168,868	11,103
2018	570,000	569,494	64,601	6,084
2019	590,000	550,895	50,748	3,045
2020-24	4,525,000	2,289,622	0	0
2025-29	4,605,000	1,284,307	0	0
2030-34	3,170,000	407,080	0	0
2035	390,000	16,575	0	0
	<u>\$16,155,000</u>	<u>\$6,968,139</u>	<u>\$597,704</u>	<u>\$56,882</u>

D. Revenue Bonds & Other Enterprise Debt

The City of Longview issued Revenue Bonds in December of 2014 with a par value of \$10,000,000. These bonds provide funds necessary to finance improvements to the water, sewer and storm water drainage systems. See Revenue Bonds below for further details.

Revenue Bonds:

\$10,000,000 – 2014 Revenue Bonds due in installments of \$315,000 to
 \$730,000 through December of 2034 with interest at 3.00% to 5.00%. **\$9,995,000**

Other Enterprise Debt:

\$750,000 – 2005 Public Works Trust Fund Loan. Proceeds to fund
 replacement of specific components of the County's sewer treatment plant.

Annual interest payments of 1/2% per annum on outstanding principal balance with final payment due July 1, 2010	449,429
<hr/>	
\$1,000,000 – 2009 Public Works Trust Fund Loan. Proceeds to fund replacement of specific components of the County’s sewer treatment plant. Annual interest payments of 1/2% per annum on outstanding principal balance with final payment due July 1, 2028	747,076
<hr/>	
\$1,000,000 – 2010 Public Works Trust Fund Loan. Proceeds to fund new Regional Water Treatment Plant. Annual interest of ½% through 2028	747,076
<hr/>	
\$3,052,350 – 2010 Public Works Trust Fund Loan. Proceeds to fund new Regional Water Treatment Plant. Annual interest of ½% through 2028	2,588,119
<hr/>	
\$4,193,183 – 2011 Public Works Trust Fund Loan. Proceeds to fund new Regional Water Treatment Plant. Annual interest of ½% through 2028	4,682,637
<hr/>	
\$8,397,696 – 2011 Department of Ecology loan to help in the City’s sewer diversion project to the regional sewage treatment plant. Annual interest of 2.8% through 2031	10,096,833
<hr/>	
\$11,278,744 – 2012 Public Works Trust Fund Loan for the Mint Farm Regional Water Supply Projects. Annual interest of 1% through 2034	7,560,000
<hr/>	
\$7,785,408 – 2012 Public Works Trust Fund Loan for the Mint Farm Regional Water Supply Project. Annual interest of .5% through 2032	8,947,368
<hr/>	
Total Other Enterprise Debt	<u>\$35,818,538</u>

The annual requirements for outstanding revenue debt are as follows:

REVENUE DEBT

Year ending December, 31	Bonds		Other	
	Principal	Interest	Principal	Interest
2015	325,000	350,676	2,066,793	443,590
2016	360,000	371,650	2,079,657	442,256
2017	375,000	360,850	2,092,885	415,344
2018	385,000	349,600	2,106,489	388,432
2019	395,000	338,050	2,120,479	361,520
2020-24	2,205,000	1,461,600	10,826,527	1,403,917
2025-29	2,685,000	983,800	10,451,323	731,149
2030-34	3,265,000	402,000	4,074,386	141,399
	<u>\$9,995,000</u>	<u>\$4,618,226</u>	<u>\$35,818,538</u>	<u>\$4,327,607</u>

E. Special Assessment Bonds

Debt service requirements for special assessment bonds will be met by the collection of assessments receivable that have been levied against property owners. The assessments are liens against the property and subject to foreclosure. In the event of default by property owners to repay the debt, the City is obligated to assume responsibility for payment of the bonds. The LID Guaranty Fund is maintained for these purposes with any requirements exceeding its balances to be covered by the General Fund. Payment for outstanding special assessment bond principal and interest is provided by Debt Service Funds.

49,300 – 2004 Local Improvement District No. 344 term bonds due September, 2016, interest at 3.75%	3,000

\$61,710 – 2004 Local Improvement District No. 345 term bonds due July, 2016, interest at 3.75%	1,000

\$30,361 – 2004 Local Improvement District No. 346 term bonds due June 2016, interest at 3.75%	<u>2,000</u>
<i>Total Local Improvement District Bonds Outstanding</i>	<u><u>\$6,000</u></u>

The annual requirements for outstanding special assessment debt are as follows:

<u>Year ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>
2014	3,000	413
2015	1,000	225
2016	<u>2,000</u>	<u>75</u>
	<u><u>\$6,000</u></u>	<u><u>\$713</u></u>

NOTE 11 - SHORT-TERM DEBT

The City of Longview had no applicable short-term debt outstanding as of December 31, 2014, nor did the City have applicable short-term debt activity during 2014.

NOTE 12 - CONTINGENCIES AND LITIGATION

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

NOTE 13 - INTERFUND BALANCES AND TRANSACTIONS

A. Interfund Transfers

Interfund transfers generally represent subsidies provided with no corresponding obligation for repayment. The purpose of these transfers may include the need to finance capital, debt or operating activities. Interfund transfers for the City of Longview during 2014 are as follows:

TRANSFERS OUT	TRANSFERS IN				TOTAL
	General Fund	Internal Service	Nonmajor Gov'tal	Nonmajor Enterprise	
General Fund			660,268	4,500	664,768
Water-Sewer		274,218		15,082	289,300
Internal Service					0
Nonmajor Governmental	573,672		418,446		992,118
Nonmajor Enterprise			85,000		85,000
TOTAL	573,672	274,218	1,163,714	19,582	2,031,186
Net proprietary transfers (bold) to governmental funds					354,718
Government-wide reclassifications					
Proprietary asset dispositions					1,575,554
Proprietary capital contributions					(260,447)
Net business-type transfers to governmental activities					1,669,825

B. Due From/To Other Funds

Interfund balances reported in this category are short-term in nature, which result from interfund transactions usually involving the exchange of goods and services within the normal operation of fund activities. Amounts due from/to other funds as of December 31, 2014 are as follows:

	DUE FROM OTHER FUNDS							TOTAL
	General Fund	Nonmajor Governmental	Water-Sewer	Sanitation	Public Transit	Nonmajor Enterprise	Internal Service	
DUE TO OTHER FUNDS								
General Fund			186,776	128,926	29,874	14,535	55,056	415,167
Water-Sewer	186,669	21,912			7,436			216,017
Sanitation	12,106							12,106
Nonmajor Governmental	103,050	15,945					829	119,824
Nonmajor Enterprise	12,152							12,152
Internal Service	202,806				17,459		144,639	364,904
TOTAL	516,783	37,857	186,776	128,926	54,769	14,535	200,524	1,140,170
Amount due proprietary funds (italics) over amount due governmental funds (bold)								144,731
Governmental resources used in 2014 Internal Service Fund activities								(44,652)
Government-wide internal balances due business-type activities								100,079

NOTE 14 - FUND BALANCES

Fund Equity Deficits

The following funds reported deficit fund balances as of December 31, 2014:

Arterial Street Special Revenue Fund

The reported deficit fund balance of \$736,256 is covered by funds collected shortly after the cutoff period for recognizing deferred inflows.

HOME Fund

A deficit fund balance of \$9,842 results primarily from the reversal of a revenue accrual which was necessary due to the program exhausting its reimbursable funds. This deficit will be addressed in 2015.

Endowments

The City of Longview is the recipient of a permanent endowment, which was donated to specifically finance library services. This endowment of \$10,200 is reported as nonspendable fund balance in the Library Memorial Trust Fund with an additional \$8,802 reported as restricted fund balance representing funds available for appropriate expenditure. Consistent with regulations, this fund operates on a total-return policy where any portion of the unrestricted fund balance is available for expenditure as long as they meet the restrictions of the endowment.

NOTE 15 - RELATED PARTY TRANSACTIONS

- A. The City of Longview, a municipal corporation and the Cowlitz Transit Authority, a public transportation benefit area created pursuant to RCW Chapter 36.57A, entered into an Interlocal Agreement to provide public transportation services effective January 1, 1988. The City of Longview provides public transportation services within the area of the Cowlitz Transit Authority in accordance with the comprehensive transit plan of the Cowlitz Transit Authority including but without limitation, the providing of vehicles, vehicle maintenance, vehicle operation, public liability and property damage insurance, supervision, and all labor and services in connection therewith, all in accordance with said comprehensive Transit Plan and in accordance with public transportation schedules as determined by the Cowlitz Transit Authority. The Cowlitz Transit Authority reimburses the City of Longview all costs and expenses incurred by it, in consideration for all of the services provided by the City of Longview, pursuant to the Interlocal Agreement, including all costs of vehicle operations, vehicle maintenance, supervision and overhead, public liability and property damage insurance, reserves for repair and replacement of vehicles, and all costs and expenses incidental thereto, all as set forth in the annual budget of the city. As agreed upon by both parties the City of Longview shall upon presentation of an invoice be compensated quarterly in advance for services to be rendered. In 2014, the City of Longview incurred \$4,907,000 of reimbursable public transit service costs provided on behalf of the Cowlitz Transit Authority. This public transportation service agreement shall continue, unless terminated or extended as herein provided, until December 31, 2016. It can be terminated by either of the parties hereto upon the giving of not less than 180 successive calendar days advance notice to the other, in writing.
- B. The Cowlitz-Wahkiakum Council of Governments is the grantee of a \$300,000 long-term economic deterioration grant, which was awarded by the U.S. Dept. of Commerce, Economic Development Administration (EDA). The City of Longview is a sub-grantee of this award and has included matching funds of \$100,000, or 25% of the total equity interest. There exists a Revolving Loan Fund Contract between the City of Longview and the Council of Governments, which specifies the responsibilities of each party. The RLF Contract establishes the creation of an eleven member Loan Administration Board (7 voting, 4 non-voting) to govern the goals, policies and operations of the program. The seven members on the Board with voting privileges are comprised of five representatives from the local business community and two representatives from the City of Longview's Council. As of December 31, 2014, the Economic Development Special Revenue Fund had \$100,972 in loans outstanding, while reporting \$383,733 in cash and investments totaling \$484,705 in fund balance reserved for this program. This fund also holds an additional \$40,000 in

fund balance reserved for loans due to an interlocal debt service agreement with the City of Kelso toward financing regional airport hanger improvements.

- C. In December 1978, the City of Longview (City) entered into an agreement with the Cowlitz Public Utility District No. 1 (PUD) to construct the Regional Water Treatment Plant (RWTP). The arrangement was organized to provide treated water to the residents of both the City and the PUD at the lowest reasonable cost consistent with reliability, safety and expedition. The PUD has since released their interest to the Beacon Hill Water-Sewer District (BHWS). Ownership parallels the participation ratio of the volume of water delivered to each participant's citizenry. As of December 31, 2014, ownership distribution was 85.44% for the City to 14.56% for the BHWS. Operating and maintenance, as well as capital financing is billed relative to these percentages during the year with adjustments made annually for changes in ownership participation. The City's share of costs relative to the RWTP for the current period was \$1,124,172 for operations and maintenance, and \$487,719 for capital. The treatment plant does not have separate legal status which eliminates it from being a component unit or a joint venture. A three-member board comprised of two City representatives and one BHSD representative administer the operation which further separates it from being a joint venture as there is the absence of complete joint control.

The RWTP, reported as a component of the City's Water-Sewer Fund, is the only available source of the operation's financial statements. With the City financially accountable for its activities, total assets and operations are reported by the City with the BHWS reporting an investment for their minority interest in the operation. The 2014 changes in the BHWS's minority interest are reflected below.

BHSD Minority Interest in the City of Longview Regional Water Treatment Plant

Balance forward	\$3,912,773
Contributions from capital funding requirements	59,243
Net loss percentage	(192,944)
Ending balance	<u>\$3,779,072</u>

- D. The City of Longview entered into an interlocal agreement with Cowlitz County, the City of Kelso and Beacon Hill Sewer District in 1996 to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA is governed by a four member board, one from each entity, and was established to provide sewage treatment services to the citizenry of the respective participating entities. Financing of the central sewage facility is funded based on each participant's proportionate share of flow to the facility along with additional funds forwarded from the participants as system development charges are assessed to new customers. During 2014, The City of Longview paid TRRWA a total of \$5,396,255. This agreement may not be terminated as long as there are debt obligations of the TRRWA. Upon termination, each participant's interest in the net position shall be equal to their proportionate share of payments over the previous 12 calendar months. The City does not have an equity interest in the TRRWA. Complete financial statements for the TRRWA can be obtained from the TRRWA at 207 4th Avenue North, Kelso, WA 98626.

NOTE 16 - JOINT VENTURES

The cities of Longview and Kelso along with Cowlitz County and the Port of Longview entered into an agreement in February of 2012 to establish an Airport Board (Board) to jointly fund and manage the operations, maintenance, improvement and regulation of the Southwest Washington Regional Airport. Prior to the agreement the Airport had been owned and operated by the City of Kelso. This agreement took

effect in January of 2013 with noncapital assets and liabilities transferred to the board which consists of a member from each party and an at large member to be appointed by majority vote of the other members. The City disbursed payments of \$65,000 to the Board in 2014. The City considers future resources of the joint venture to be stable. Further financial information can be obtained through the City of Kelso at PO Box 819, Kelso, Washington 98626.

NOTE 17 - PRIOR PERIOD ADJUSTMENTS

The City adjusted the compensated absences displayed in the Employee Benefits Reserve Internal Service Fund to better reflect the reporting of those obligations with the funds in which they are expected to be liquidated. The net prior period adjustment at the fund level is a net position increase of \$3,136,304 moving these obligations to governmental activities at the government-wide level. This amount is comprised of \$3,357,636 moved out of the above Internal Service Fund while various proprietary funds now show their respective obligations resulting in a combined decrease to their net position of \$221,332. While there is no change in the overall amount of compensated absences reported by the City as a whole, Note 10 reports a balance forward restatement of \$329,705 from governmental activities to business-type activities comprised of the \$221,332 mentioned above along with compensated absences of \$108,373 reported in various Internal Service Funds displayed as governmental activities at the government wide level.

NOTE 18 - OTHER INFORMATION

The City reports a pollution remediation obligation in its Water-Sewer Fund due to the discontinuance of sewer treatment lagoons in favor of diverting sewage to the Three Rivers Regional Wastewater Plant. With the City vacating the treatment site, federal and state regulations require the removal and disposal of residual sewage biosolids as well as to properly decommission the old sewage treatment site. This project was undertaken in 2012 with the estimated liability of \$4.5 million determined by evaluating various alternatives reduced by the anticipated appreciation in land of just over \$600,000 which will be capitalized at project completion. No further events or recoveries are expected to reduce the liability which is currently just under \$1.9 million as displayed in Note 10. These estimations are subject to change as the removal and restoration efforts continue which are expected to be completed in 2015.

CITY OF LONGVIEW, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures		
			Direct	Pass Through	Total
<u>Department of Commerce Economic Development Administration</u>					
Economic Adjustment Assistance	11.307		366,827		366,827
Total Department of Commerce Economic Development Administration			366,827	0	366,827
<u>Department of Housing and Urban Development Office of Community Planning and Development</u>					
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-53-0019	263,467		263,467
Community Development Block Grants/Entitlement Grants	14.218	Program income	23		23
Subtotal CFDA 14.218			263,490	0	263,490
HOME Investment Partnerships Program	14.239	DC530203	258,836		258,836
Total Department of Housing and Urban Development Office of Community Planning and Development			522,326	0	522,326
<u>Department of the Interior National Park Service</u>					
Washington State Department of Archaeology and Historic Preservation					
Historic Preservation Fund Grants-In-Aid	15.904	A0054083-01		10,705	10,705
Total Department of the Interior National Park Service			0	10,705	10,705
<u>Department of Justice Office of Community Oriented Policing Services</u>					
ARRA-Public Safety Partnership and Community Policing Grant	16.710	2009-RK-WX-0878	174,460		174,460
Total Department of Justice Office of Community Oriented Policing Services			174,460	0	174,460
<u>Department of Justice Bureau of Justice Assistance</u>					
Bulletproof Vest Partnership Program	16.607		4,514		4,514
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0241	4,885		4,885
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0460	26,575		26,575
Subtotal CFDA 16.738			31,460	0	31,460
Total Department of Justice Bureau of Justice Assistance			35,974	0	35,974
<u>Department of Justice Violence Against Women Office</u>					
Washington State Department of Commerce					
Violence Against Women Formula Grant	16.588	F14-31103-076		11,980	11,980
Total Department of Justice Violence Against Women Office			0	11,980	11,980
<u>Department of Transportation Federal Highway Administration</u>					
Washington State Department of Transportation					
Highway Planning and Construction	20.205	BRM-9908(012)		589,972	589,972
Highway Planning and Construction	20.205	HSIP-6729(009)		13,196	13,196
Highway Planning and Construction	20.205	HSIP-6730(009)		7,418	7,418
Highway Planning and Construction	20.205	HSIP-0695(010)		172,667	172,667
Highway Planning and Construction	20.205	TAP-6771(001)		506,390	506,390
Subtotal CFDA 20.205			0	1,289,643	1,289,643
Total Department of Transportation Federal Highway Administration			0	1,289,643	1,289,643
<u>Department of Transportation Federal Transit Administration</u>					
Federal Transit Formula Grants	20.507	WA040098	373,500		373,500
Federal Transit Formula Grants	20.507	WA9051401	125,800		125,800
Federal Transit Formula Grants	20.507	WA9049401	53,714		53,714
Federal Transit Formula Grants	20.507	WA-90-X514	909,829		909,829
Subtotal CFDA 20.507			1,462,843		1,462,843
Total Department of Transportation Federal Transit Administration			1,462,843		1,462,843
<u>Department of Transportation National Highway Traffic Safety Administration</u>					
Washington Association of Sheriffs and Police Chiefs					
Highway Safety Cluster - State and Community Highway Safety	20.600	120-6200-00		5,107	5,107
Washington Traffic Safety Commission					
Highway Safety Cluster - Alcohol Impaired Driving Countermeasures	20.601			758	758
Incentive Grant					
Total Department of Transportation National Highway Traffic Safety Administration			0	5,865	5,865
<u>Department of Health and Human Services Centers for Disease Control and Prevention</u>					
National Recreation & Park Association					
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283			16,200	16,200
Total Department of Health and Human Services Centers for Disease Control and Prevention			0	16,200	16,200
<u>Department of Homeland Security</u>					
Washington State Military Department					
Disaster Grants - Public Assis. (Presidentially Declared Disasters)	97.036	1671-DR-WA		10,567	10,567
Total Department of Homeland Security			0	10,567	10,567
TOTAL FEDERAL ASSISTANCE			\$2,562,430	\$1,344,960	\$3,907,390

NOTES TO THE SCHEDULE OF FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City's financial statements. The City utilizes the accrual basis of accounting in reporting all grant activity. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

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's portion, are more than shown.

NOTE 3 - USED A REVOLVING LOAN PROGRAM

The United States Economic Development Agency awarded a \$300,000 long-term deterioration grant to the Cowlitz-Wahkiakum Council of Governments with the City of Longview contributing \$100,000 for a 25% equity interest. As of December 31, 2014, resources in this program consisted of \$484,705 which is detailed below.

	2014
Revolving loan balance	\$100,972
Cash and investments	<u>383,733</u>
Total program balance	484,705
Loan fund administrative expenditures	1,363
Loan principal written off	<u>3,034</u>
Allocable amount of awards expended	489,102
Federal revolving loan program share	<u>75.00%</u>
Amount reported as federal awards expended	\$366,827

NOTE 4 - CITY REVOLVING LOAN PROGRAM

The City has a revolving loan program for low-income housing. Under the CDBG federal program, the City loans funds to qualifying participants considered expenditures that are reported on this schedule for which the City is eligible for reimbursement. Loan repayments of principal and interest are considered program income. The City opened 2014 with no unspent program income while spending all realized program income during the period of \$23.

NOTE 5 - FEDERAL LOANS

The City of Longview incurred no applicable expenditures relative to federal loans in 2014.

NOTE 6 - RELATED PARTY TRANSACTIONS

The City of Longview, a municipal corporation and the Cowlitz Transit Authority, a public transportation benefit area created pursuant to RCW Chapter 36.57A, entered into an Interlocal Agreement to provide public transportation services effective January 1, 1988. The City of Longview provides transportation services within the area of the Cowlitz Transit Authority in accordance with the comprehensive transit plan of the Cowlitz Transit Authority. Under the terms of the agreement, the Cowlitz Transit Authority reimburses the City of Longview all costs and expenses incurred toward providing public transportation services as set forth in the City's annual budget. This agreement shall continue until midnight of December 31, 2016, unless sooner terminated or extended.

NOTE 7 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for program 14.218 is \$184,977 that was passed through to subrecipients that administered their own projects. Amounts awarded to subrecipients under program 11.307 for 2014 was \$40,000.

NOTE 8 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures of this act were funded by ARRA.

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

City of Longview Cowlitz County January 1, 2014 through December 31, 2014

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

Finding ref number: 2014-001	Finding caption: The City's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act requirements.
Name, address, and telephone of auditee contact person: Kurt Sacha, Finance Director/Assistant City Manager City of Longview P.O. Box 128 Longview, WA 98632 (360) 442-5030	
Corrective action the auditee plans to take in response to the finding: <i>As mentioned in the above Cause of Condition, the City of Longview does not believe that a subrecipient relationship exists with the Cowlitz Transit Authority which would remove the basis for the finding that subawards were not filed under the Federal Funding Accountability Act of 2006. Additionally, as noted above, this subrecipient issue has been brought to the attention of the grantor with the hope for a determination prior to the issuance of this audit report. Unfortunately, as of the deadline for audit filing, the subrecipient relationship matter was still pending.</i> <i>The City looks forward to working with the Washington State Auditor's Office and the Federal Transit Administration in securing a final determination and resolving this matter.</i>	
Anticipated date to complete the corrective action: immediately	

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