



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### City of Kent

King County

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

Published September 28, 2015

Report No. 1015289





## Washington State Auditor's Office

September 28, 2015

Mayor and City Council  
City of Kent  
Kent, Washington

### Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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## FEDERAL SUMMARY

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

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

### **Financial Statements**

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

#### **Internal Control Over Financial Reporting:**

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

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

### **Federal Awards**

#### **Internal Control Over Major Programs:**

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

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

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

## Identification of Major Programs:

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

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

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

The City did not qualify as a low-risk auditee under OMB Circular A-133.

## 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 Kent. The State Auditor's Office has reviewed the status as presented by the City.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                    |                                                         |                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------------------------------------------|----------------------------------|
| <b>Audit Period:</b><br>01/01/2013-12/31/2013                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Report Ref. No.:</b><br>1012755 | <b>Finding Ref. No.:</b><br>1                           | <b>CFDA Number(s):</b><br>97.042 |
| <b>Federal Program Name and Granting Agency:</b><br>Emergency Management Performance Grants,<br>Department of Homeland Security                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                    | <b>Pass-Through Agency Name:</b><br>Military Department |                                  |
| <b>Finding Caption:</b><br><br>The City did not have internal controls in place to ensure compliance with Federal subrecipient monitoring requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                    |                                                         |                                  |
| <b>Background:</b><br><b>Description of Condition</b><br><br>The Emergency Management Performance Grant (EMPG) program provides resources to assist governments in preparing for all hazards, as authorized by Section 662 of the Post Katrina Emergency Management Reform Act and the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The federal government, through the EMPG program, provides necessary direction, coordination, and guidance, and provides necessary assistance, as authorized to support a comprehensive all hazards emergency preparedness system.<br><br>The City received \$104,471 in EMPG funds from the Military Department, which it passed through to the Kent Fire Department Regional Fire Authority (RFA), a separate legal entity, for costs related to the program. The RFA was not eligible to apply for these funds directly. The City has an inter-local agreement with the Kent Regional Fire Authority to provide emergency management services on the City’s behalf.<br><br>Federal regulations require the City to monitor the RFA to ensure federal funds are used for authorized purposes.<br><br>Our audit found the City did not perform subrecipient monitoring as required. We consider this to be an internal control deficiency that is a material weakness. |                                    |                                                         |                                  |
| <b>Cause of Condition</b><br><br>City management considered the grant agreement with the Military Department a three-party grant agreement between the City of Kent, Kent Fire Department Regional Fire Authority and the state agency and does not consider the City’s participation in the agreement to have established its responsibility for subrecipient monitoring requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                    |                                                         |                                  |

**Effect of Condition and Questioned Costs**

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

**Status of Corrective Action: (check one)**

☒ Fully  
Corrected

☐ Partially  
Corrected

☐ No Corrective  
Action Taken

☐ Finding is considered no  
longer valid

**Corrective Action Taken:**

1. In late February 2015 the City entered into a contract with the City of Auburn to provide specified subrecipient monitoring services for the City of Kent. The contract incorporated each of the two existing EMPG awards (E14-088 and E15-135), and will be amended for each subsequent EMPG award. As of April 2015, the City had received monitoring reports for each of these awards, and these reports did not reflect any concerns.
2. In early March 2015 the City entered into a standardized federal sub-award contract with the Kent Fire Department Regional Fire Authority (RFA), incorporating key provisions governing the administration of the EMPG awards. This contract was executed for each of the two existing EMPG awards (E14-088 and E15-135), and will be executed for each subsequent EMPG award.
3. The City will ensure that an OMB Circular A-133 audit is performed for the RFA for any year in which \$500,000 or more in federal financial assistance is expended, and that the RFA provides the City with a copy of this report and Management Letter, if any, to the City.

|                                                                                                                                                                                                                                   |                                         |                                          |                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|------------------------------------------|----------------------------------|
| <b>Audit Period:</b><br>01/01/2013-12/31/2013                                                                                                                                                                                     | <b>Report Reference No.:</b><br>1012755 | <b>Finding Reference No.:</b> 2          | <b>CFDA Number(s):</b><br>14.218 |
| <b>Federal Program Name and Granting Agency:</b><br>Community Development Block Grant,<br>Department of Housing and Human Services                                                                                                |                                         | <b>Pass-Through Agency Name:</b><br>None |                                  |
| <b>Finding Caption:</b><br>The City's internal controls were not adequate to ensure compliance with Community Development Block Grant Federal Funding Accountability and Transparency Act of 2006 (FFATA) reporting requirements. |                                         |                                          |                                  |

**Background:****Description of Condition**

During 2013, the City received \$807,439 of Community Development Block Grant

(CDBG) funding provided by the U.S. Department of Housing and Urban Development.

The City passed through \$162,175 in grant funds to subrecipients. Grant funding may be used to benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency.

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

**Cause of Condition**

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

**Effect of Condition and Questioned Costs**

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

**Status of Corrective Action: (check one)**

|                                           |                                    |                                        |                                                   |
|-------------------------------------------|------------------------------------|----------------------------------------|---------------------------------------------------|
| <input checked="" type="checkbox"/> Fully | <input type="checkbox"/> Partially | <input type="checkbox"/> No Corrective | <input type="checkbox"/> Finding is considered no |
| Corrected                                 | Corrected                          | Action Taken                           | longer valid                                      |

**Corrective Action Taken:**

1. *The department administering this award:*

- *Worked with HUD and the FSRS technical assistance team and was able to submit the 2013 FFATA report. Subsequently, the City then filed the 2014 FFATA report in September 2014 for all sub-recipient contracts over \$25,000 to adhere to the Transparency Act for the 2014 CDBG granting period.*
- *Developed an annual checklist for all required HUD CDBG reporting which is maintained in the administrative file and is reviewed monthly for compliance.*
- *Personnel responsible for the administration of this program will attend additional CDBG training during 2015. Additionally, in late 2014 the Division Manager provided training to staff about the reporting requirements.*

2. *The City originally planned to develop checklist for federal grants of common reporting requirements for use by all departments. However, this plan was not implemented due to the diverse nature of these requirements and the significant number of federal programs administered by the City.*

*This topic was presented to the City of Kent Mayor's Leadership Team (MLT) meeting in late 2014. MLT is comprised of the Mayor, the Chief Administrative Officer and all department directors.*

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

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

Mayor and City Council  
City of Kent  
Kent, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kent, King County, Washington, as of and for the year ended December 31, 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 August 21, 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* and Statement No. 70, *Nonexchange Financial Guarantees*.

**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

August 21, 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 Kent  
King County  
January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Kent  
Kent, Washington

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

We have audited the compliance of the City of Kent, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

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



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

September 15, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Kent King County January 1, 2014 through December 31, 2014

Mayor and City Council  
City of Kent  
Kent, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kent, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 19.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Kent, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General and Capital Improvement Special Revenue Funds, 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* and Statement No. 70, *Nonexchange Financial Guarantees*. 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 21 through 37, information on postemployment benefits other than pensions on page 111 and pension trust fund information on pages 112 through 114 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 August 21, 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

August 21, 2015

## FINANCIAL SECTION

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

### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

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

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Improvement Special Revenue 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

### REQUIRED SUPPLEMENTARY INFORMATION

Retirement Health Care Benefits – LEOFF 1 Retirement System – Schedule of Funding Progress – 2014

Firefighters' Pension Trust Fund – 2014

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

This discussion and analysis of the City of Kent's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS:**

- Net position (\$1.01 billion) increased by \$51.9 million or 5.4 percent from 2013 restated levels, comprised of a \$23.8 million or a 3.7 percent increase resulting from governmental activities and a \$28.1 million or 9.2 percent increase as a result of business-type activities. Approximately \$21.5 million or 2.1 percent of the net position may be used to meet the City's ongoing obligations to citizens and creditors.
- With the implementation of GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the City reported a \$76.8 million contingent loan guarantee obligation in the governmental activities of the Statement of Net Position.
- Long-term liabilities (\$210.3 million) decreased by \$14.6 million or 6.5 percent from restated 2013 levels with 2014 debt payments.

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

This discussion and analysis is intended to serve as an introduction to the City of Kent's basic financial statements. The City of Kent's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

and human services. The business-type activities of the City of Kent include water and sewerage utilities and a municipal golf complex.

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

The government-wide financial statements can be found on pages 23-25 of this report.

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

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

The focus of governmental funds is narrow and it is useful to compare the information provided by the government-wide financial statements for governmental activities with the governmental funds statements. This may give the reader a better understanding of how long-term impacts are affected by near-term financing decisions. To facilitate this comparison, reconciliations between the governmental funds and the governmental activities are provided immediately following the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances.

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

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided, within the basic financial statements, for the general fund to demonstrate compliance with this budget. Budgetary schedules are also provided for the special revenue funds in the Combining & Individual Fund Statements and Schedules section of this document.

The governmental major funds financial statements are found on pages 26-33 of this report.

**Proprietary funds.** The City maintains two types of proprietary funds. Enterprise funds are used to report the activities that are business-like in nature, and are included in the business-type activities in the government-wide financial statements. Enterprise funds primarily serve customers outside of the

governmental unit. The City maintains three Enterprise funds: (1) Water Fund, (2) Sewerage Fund (Sewer and Storm Drainage utilities) and (3) Golf Complex Fund. Internal service funds are used to report business-type functions that operate internally within the City and allocate their services to the City's various functions. The City maintains four Internal Service Funds: (1) Equipment Rental Fund, (2) Central Services Fund (postage, central stores, copiers, print shop, cable media services, telephone services, and data processing services), (3) Facilities Fund, and (4) Insurance Fund (unemployment, workers' compensation, medical and dental, liability and property). Since these services mainly benefit governmental rather than business-type functions, their assets and liabilities have been included within governmental activities in the government-wide statement of net position, but their functions are prorated as to their usage between governmental and business-type activities in the government-wide statement of activities.

Proprietary funds provide detailed information of the same type of information found in the government-wide financial statements. The City reports each enterprise fund as a major fund, and includes the internal service funds in a single column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 126-133.

The basic proprietary fund financial statements can be found on pages 36-45 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Kent's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains several trust funds, as well as a pension fund instituted for firefighters who were employed by the City prior to March 1, 1970.

The basic fiduciary fund financial statements can be found on pages 46-47 of this report.

**Notes to the financial statements.** The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements. The notes can be found on pages 50-99 of this report.

**Other information.** This report also includes required supplementary information concerning the City of Kent's employer contributions, money-weighted rate of return, and changes in net pension liability and related ratios for its Firemen's Relief and Pension Fund. In addition, it provides information on the funding of the other post-employment benefits (including long-term care). This information can be found on pages 101-104 of this report.

Combining statements for non-major governmental funds are also presented on pages 106-113 immediately following the other information mentioned above. Included with the combining statements are budgetary comparison schedules for the various special revenue funds, which are found on pages 114-119. Additionally, budgetary comparison schedules for three funds separately budgeted but combined into the General Fund for financial reporting are included on pages 122-124. The combining statements for the agency funds are found on pages 137-141 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS:**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Kent, assets and deferred inflows exceeded liabilities and deferred outflows by \$1.01 billion on December 31, 2014.

By far the largest portion of the City of Kent's net position (\$975.4 million or 96.8 percent) reflects its investment in capital assets (e.g. land, buildings, infrastructure, site improvements, and equipment) less depreciation and any related outstanding debt used to acquire or construct those assets. The City of Kent uses these capital assets to provide services to its citizens; consequently, it is not the City's intention to sell these assets and they are therefore not available for future spending. Although the City of Kent's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

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

|                                      | <b>Governmental<br/>Activities</b> |                | <b>Business-Type<br/>Activities</b> |                | <b>Total Primary<br/>Government</b> |                  |
|--------------------------------------|------------------------------------|----------------|-------------------------------------|----------------|-------------------------------------|------------------|
|                                      | <b>2014</b>                        | <b>2013</b>    | <b>2014</b>                         | <b>2013</b>    | <b>2014</b>                         | <b>2013</b>      |
| <b>Assets</b>                        |                                    |                |                                     |                |                                     |                  |
| Current and other Assets             | \$ 85,949                          | \$ 73,351      | \$ 52,444                           | \$ 49,709      | \$ 138,393                          | \$ 123,060       |
| <u>Capital Assets</u>                | <u>758,122</u>                     | <u>761,533</u> | <u>342,730</u>                      | <u>322,987</u> | <u>1,100,852</u>                    | <u>1,084,520</u> |
| Total Assets                         | 844,071                            | 834,884        | 395,174                             | 372,696        | 1,239,245                           | 1,207,580        |
| <b>Deferred Outflows</b>             | <b>554</b>                         | <b>533</b>     | <b>132</b>                          | <b>-</b>       | <b>686</b>                          | <b>533</b>       |
| Total Assets & Deferred Outflows     | 844,625                            | 835,417        | 395,306                             | 372,696        | 1,239,931                           | 1,208,113        |
| <b>Liabilities</b>                   |                                    |                |                                     |                |                                     |                  |
| Long-term                            | 152,326                            | 163,708        | 57,966                              | 61,200         | 210,292                             | 224,908          |
| <u>Other Liabilities</u>             | <u>19,525</u>                      | <u>22,768</u>  | <u>2,592</u>                        | <u>4,837</u>   | <u>22,117</u>                       | <u>27,605</u>    |
| Total Liabilities & Deferred Inflows | 171,851                            | 186,476        | 60,558                              | 66,037         | 232,409                             | 252,513          |
| <b>Net Position</b>                  |                                    |                |                                     |                |                                     |                  |
| Net Investment in Capital Assets     | 687,527                            | 682,946        | 287,868                             | 264,927        | 975,395                             | 947,873          |
| Restricted                           | 9,500                              | 10,722         | 1,111                               | 3,631          | 10,611                              | 14,353           |
| Unrestricted                         | (24,253)                           | (44,727)       | 45,769                              | 38,101         | 21,516                              | (6,626)          |
| Total Net Position                   | \$ 672,774                         | \$ 648,941     | \$ 334,748                          | \$ 306,659     | \$1,007,522                         | \$ 955,600       |

\* 2013 numbers restated for prior period adjustments

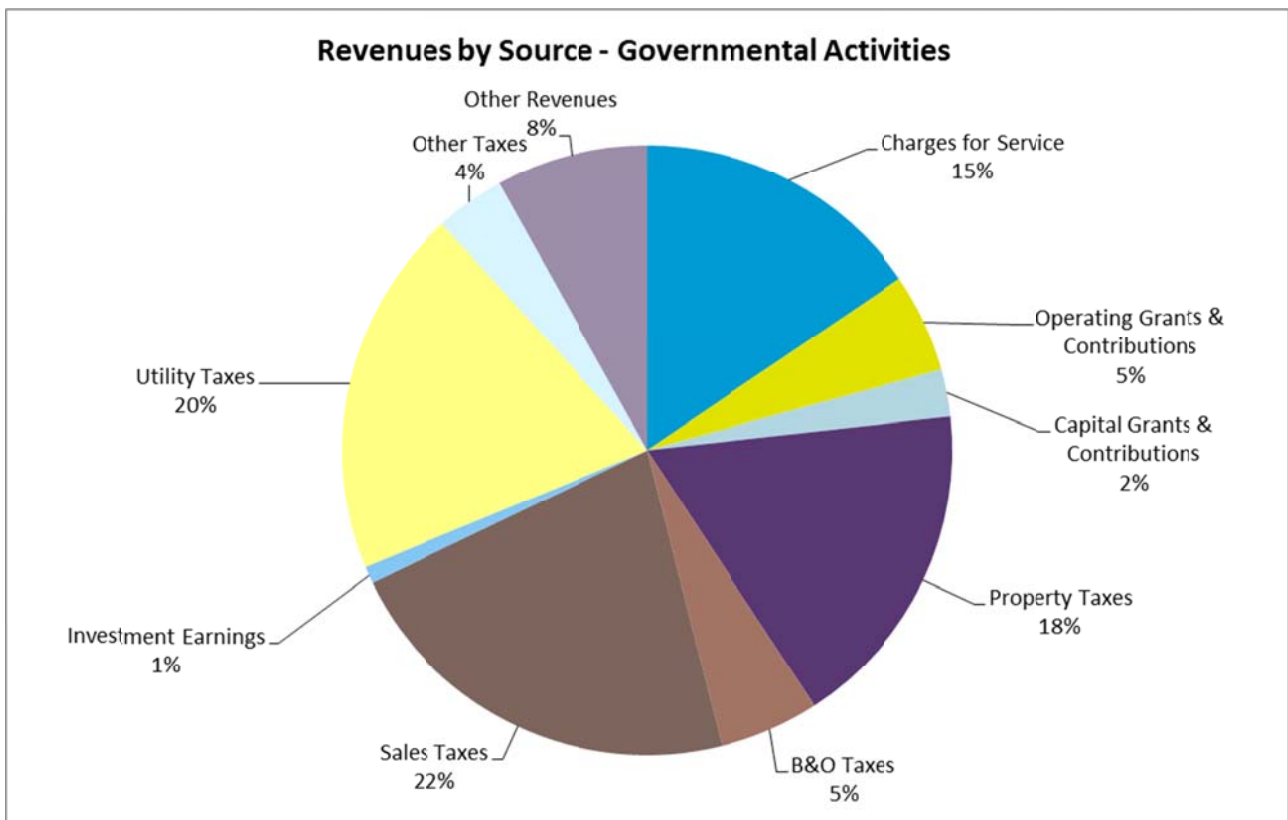
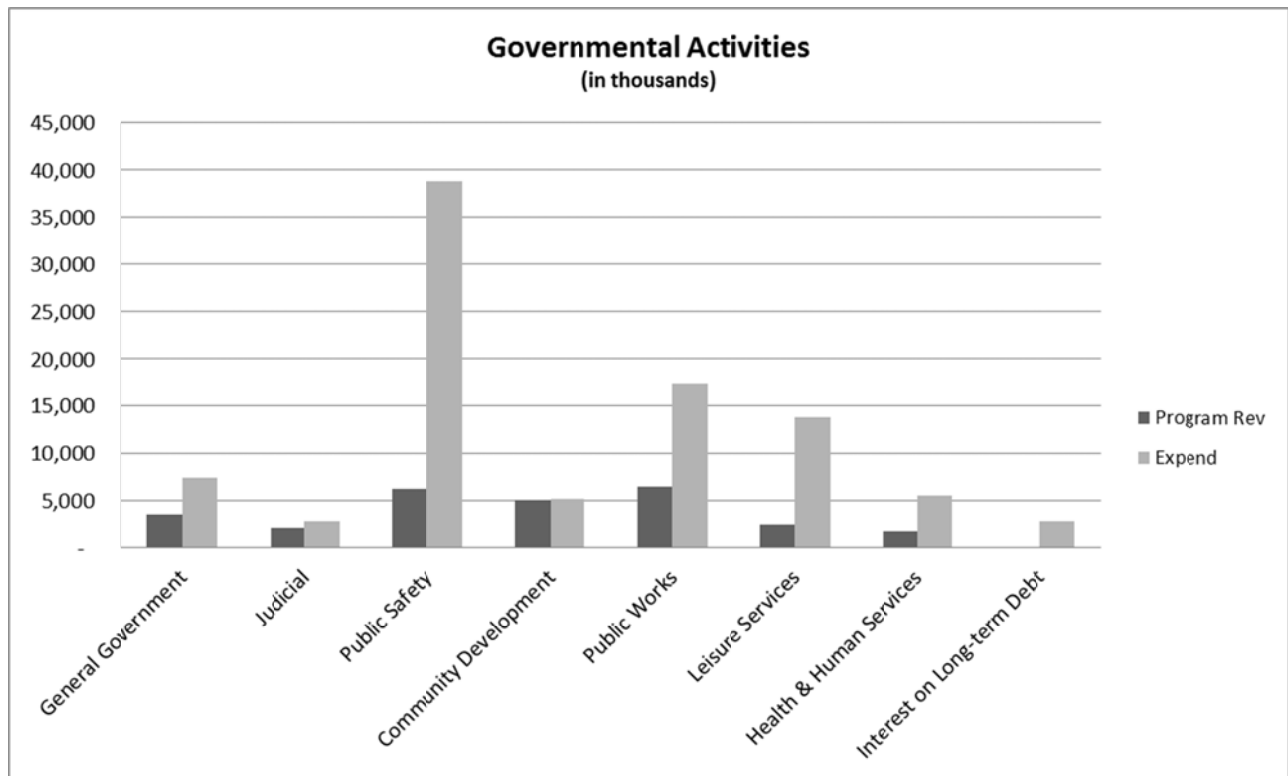
Of the City of Kent's net position, 1.1 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$21.5 million (2.1 percent), may be used to meet the city's ongoing obligations to citizens and creditors. The unreserved net position of the City decreased over \$79 million with the implementation of GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (reflected in the restated 2013 numbers above).

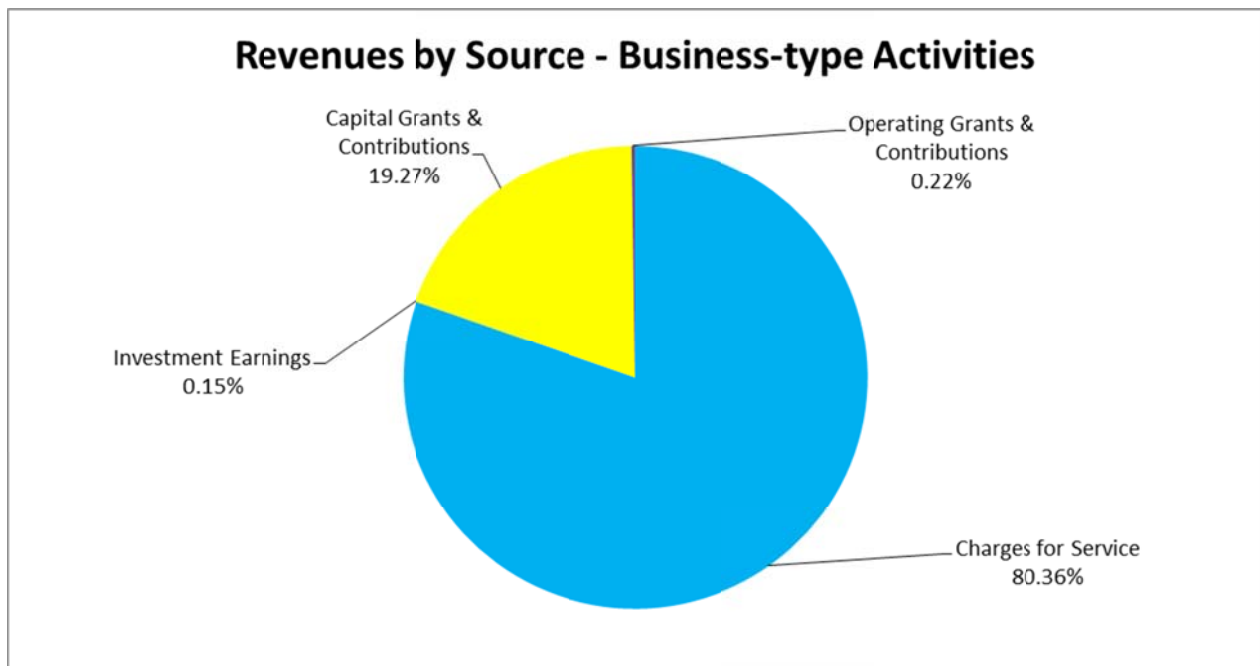
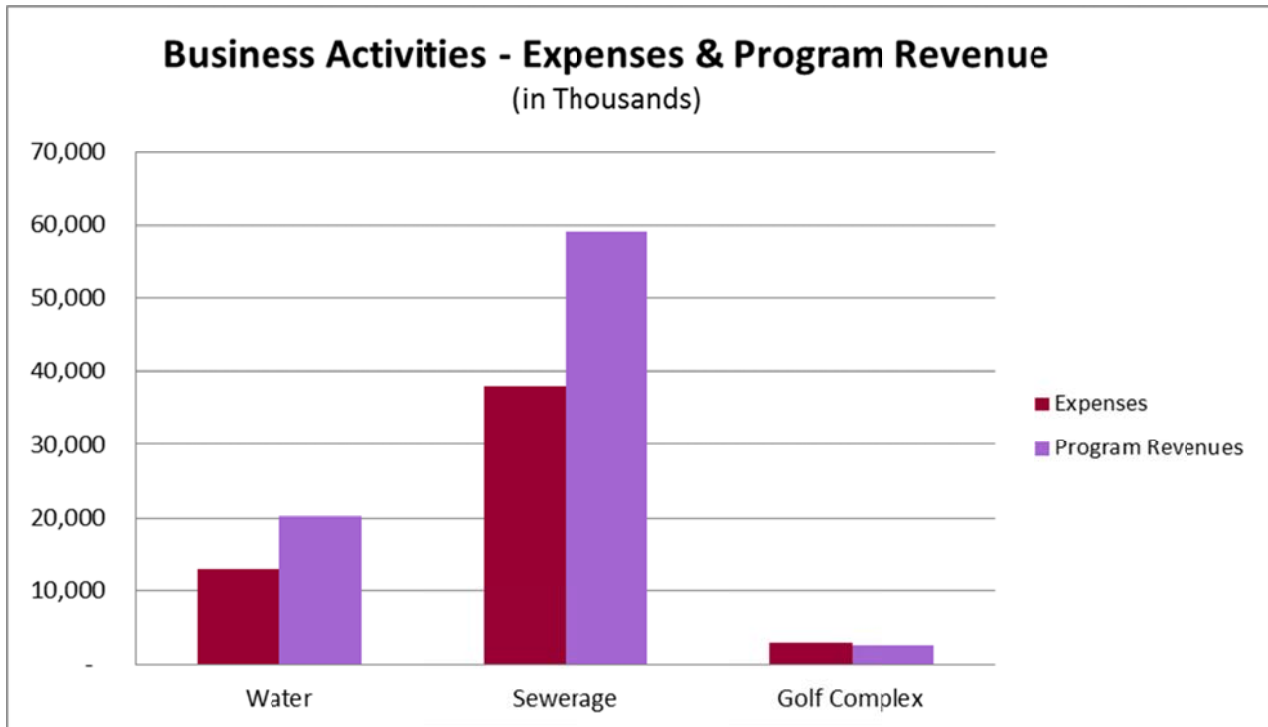
The following table and graphs show the changes in net position, a comparison of program costs and revenues, and composition of the revenues. Following the graphs is a discussion of the various revenue streams for the City.

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

|                                      | Governmental<br>Activities |            | Business-Type<br>Activities |           | Total Primary<br>Government |            |
|--------------------------------------|----------------------------|------------|-----------------------------|-----------|-----------------------------|------------|
|                                      | 2014                       | 2013       | 2014                        | 2013      | 2014                        | 2013       |
| <b>Revenues:</b>                     |                            |            |                             |           |                             |            |
| Program Revenues:                    |                            |            |                             |           |                             |            |
| Charges for Service                  | \$ 18,171                  | \$ 13,708  | \$ 65,871                   | \$ 62,206 | \$ 84,042                   | \$ 75,914  |
| Operating Grants                     | 6,166                      | 6,090      | 177                         | 81        | 6,343                       | 6,171      |
| Capital Grants                       | 2,937                      | 4,743      | 15,793                      | 9,195     | 18,730                      | 13,938     |
| General Revenues:                    |                            |            |                             |           |                             |            |
| Taxes:                               |                            |            |                             |           |                             |            |
| Property Taxes                       | 20,600                     | 20,085     | -                           | -         | 20,600                      | 20,085     |
| Sales Taxes                          | 25,332                     | 22,707     | -                           | -         | 25,332                      | 22,707     |
| Utility Taxes                        | 22,963                     | 22,760     | -                           | -         | 22,963                      | 22,760     |
| Business & Occupation Taxes          | 6,209                      | 5,149      | -                           | -         | 6,209                       | 5,149      |
| Other Taxes                          | 4,541                      | 5,157      | -                           | -         | 4,541                       | 5,157      |
| Unrestricted Grants                  | 6,851                      | 6,760      | -                           | -         | 6,851                       | 6,760      |
| Investment Earnings                  | 1,053                      | 896        | 125                         | 154       | 1,178                       | 1,050      |
| Miscellaneous                        | 2,596                      | 3,687      | -                           | -         | 2,596                       | 3,687      |
| Total Revenues                       | 117,419                    | 111,742    | 81,966                      | 71,636    | 199,385                     | 183,378    |
| <b>Expenses:</b>                     |                            |            |                             |           |                             |            |
| General Government                   | 7,343                      | 8,959      | -                           | -         | 7,343                       | 8,959      |
| Judicial                             | 2,789                      | 2,744      | -                           | -         | 2,789                       | 2,744      |
| Public Safety                        | 38,745                     | 37,377     | -                           | -         | 38,745                      | 37,377     |
| Community Development                | 5,176                      | 5,097      | -                           | -         | 5,176                       | 5,097      |
| Public Works                         | 17,371                     | 16,994     | -                           | -         | 17,371                      | 16,994     |
| Leisure Services                     | 13,862                     | 15,909     | -                           | -         | 13,862                      | 15,909     |
| Health & Human Services              | 5,479                      | 5,275      | -                           | -         | 5,479                       | 5,275      |
| Interest on Long-Term Debt           | 2,804                      | 3,250      | -                           | -         | 2,804                       | 3,250      |
| Water Utility                        | -                          | -          | 13,070                      | 13,973    | 13,070                      | 13,973     |
| Sewerage Utility                     | -                          | -          | 37,952                      | 37,681    | 37,952                      | 37,681     |
| Golf Complex                         | -                          | -          | 2,872                       | 2,918     | 2,872                       | 2,918      |
| Total Expenses                       | 93,569                     | 95,605     | 53,894                      | 54,572    | 147,463                     | 150,177    |
| Increase in Net Position before      |                            |            |                             |           |                             |            |
| Transfers & Special Items            | 23,850                     | 16,137     | 28,072                      | 17,064    | 51,922                      | 33,201     |
| Transfers                            | (17)                       | 762        | 17                          | (762)     | -                           | -          |
| Special Item                         | -                          | -          | -                           | 2,828     | -                           | 2,828      |
| Increase in Net Position             | 23,833                     | 16,899     | 28,089                      | 19,130    | 51,922                      | 36,029     |
| Net Position – January 1 – restated* | 648,941                    | 632,042    | 306,659                     | 287,529   | 955,600                     | 919,571    |
| Net Position – December 31           | \$ 672,774                 | \$ 648,941 | \$ 334,748                  | 306,659   | \$1,007,522                 | \$ 955,600 |

\* 2013 numbers restated for prior period adjustments





**Governmental activities.** Governmental activities net position increased \$23.8 million (3.7 percent) in fiscal year 2014. Some key revenue and expenditure highlights of governmental activities for fiscal year 2014 are as follows:

- **Taxes** – Property Taxes (\$20.6 million), Sales & Use Taxes (\$25.3 million), Utility Taxes (\$23.0 million), Business & Occupation Taxes (\$6.2 million), and Other Taxes (\$4.5 million)

increased/(decreased) by \$.5 million or 2.6 percent, \$2.6 million or 11.6 percent, \$.2 million or .9 percent, \$1.1 million or 20.6 percent and (\$.6) million or 11.9 percent, respectively as the economy continues slow growth. The City began collecting business & occupation taxes in 2013 and is continuing a strong education program, coupled with enforcement efforts to educate businesses on this new tax. The decrease in other taxes is primarily due to lower Real Estate Excise Tax collections during 2014.

- *Investment Earnings* (\$1.1 million) increased by \$.2 million or 17.5 percent. Although rates have remained fairly constant during 2014 the increase in investment earnings is the result of increased funds available for investing.
- *Charges for Service program revenues* (\$18.2 million) increased by \$4.5 million or 32.6 percent, with the largest increases in General Government, Public Safety, Community Development and Public Works.
  - o General Government increased \$1.4 million (70.3 percent) with the inclusion of Internal Service Fund outside revenues to this category and function in 2014. They had previously been included in miscellaneous general revenues.
  - o Public Safety increased \$1.6 million (87.0 percent) primarily due to three new fines that were collected in 2014. These include school zone camera fines of \$.9 million.
  - o Community Development revenues increased \$1.2 million (30.3 percent) due to increasing permit and other building related fees, especially commercial building permits (up \$.5 million) and plan check fees (up \$.4 million) as construction continues to recover.
  - o Public Works revenues increased \$.4 million primarily due to increased plans review fees and street impact fees as the result of the improved economy especially in commercial construction.
- *Grants and Contributions* –operating grants and contributions increased \$.1 million and capital grants decreased by \$1.8 million. The decrease in capital grants was primarily in Public Works due to Federal Highway Grants completed in 2013 and Leisure Services with the completion of some parks grants in 2013.
- Governmental Activities expenses decreased \$2.0 million with General Government and Leisure Services decreasing \$1.6 million and \$2.0 million respectively while Public Safety increased \$1.4 million. Interest on long-term debt also decreased \$.4 million with lower debt payments in 2014.
  - o *General Government expenses* (\$7.3 million) decreased by \$1.6 million or 18.0 percent as compared to 2013. This is primarily due to a decrease in depreciation expense due to several large technology assets being fully depreciated in 2013.
  - o *Leisure Services expenses* (\$13.9 million) decreased \$2.0 million primarily due to a decrease in the contingent loan guarantee obligation with the 2014 contribution to the PFD debt.
  - o *Public Safety expenses* increased \$1.4 million, primarily due to a \$.5 million increase in salaries due to increased overtime and a \$.4 million increase in prisoner care costs and a \$.2 million cost of operating the new school zone cameras.

**Business-type activities.** Business-type activities net position increased \$28.1 million (9.2 percent) in fiscal year 2014. Key highlights of the change in net position are as follows:

- *Charges for Service (Operating Revenues)* (\$65.9 million) increased by \$3.7 million or 5.9 percent. The increase was due to rate increases as well as increased customers in both Water Utility and Sewerage Utility revenue resulting in \$1.4 million and \$2.2 million increases, respectively while Golf Complex charges for service remained steady. Refer to the analysis of the Proprietary Funds for further detail.
- *Operating Grants/Contributions* (\$.2 million) increased by \$.1 million with higher non-operating revenues in 2014 in both the water and sewer funds.
- *Capital Grants/Contributions* (\$15.8 million) increased \$6.6 million (71.7 percent). While the Water Fund decreased \$.7 million due to decreased capital contributions and connection and system development fees, the Sewerage Fund increased \$7.3 million with grant monies received from the State Department of Ecology and King County for drainage infrastructure.
- *Expenses* – Water fund expenses (\$13.0 million) decreased \$.9 million (6.5 percent) while Sewerage Fund expenses (\$38.0 million) increased \$.3 million (.8 percent). Refer to the analysis of the Proprietary Funds for further detail.

#### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

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

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

At the end of the current fiscal year, the City of Kent's governmental funds reported combined ending fund balances of \$32.4 million, an increase of \$15.3 million in comparison with the restated prior fiscal year balances. Of this amount, the unassigned fund balance is \$6.2 million, up \$8.4 million from the previous year. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$.1 million), 2) restricted for particular purposes (\$14.7 million), 3) committed for particular purposes (\$8.9 million), or assigned for particular purposes (\$2.5 million).

The *General Fund* is the chief operating fund of the City of Kent. At the end of the current fiscal year, fund balance of the General Fund was \$12.8 million, representing a \$6.5 million or 104.7 percent increase from 2013. During 2011, the City implemented GASB 54. As a result, for reporting purposes, the General Fund is now comprised of the General Fund along with three funds once considered Special Revenue Funds of the City (Public Safety Retiree Fund, Operating Grants and Projects Fund, and the Kent Events Center Fund). For budgetary purposes, these special revenue funds are still separate from the General Fund. Factors affecting the General Fund's ending fund balance include:

- Total General Fund revenues increased \$4.5 million (6.0 percent) from the previous year, generally due to continued slow economic growth. The major changes are discussed below.

- Property taxes of \$20.7 million were up \$.6 million from the previous year primarily due to addition of new construction into the assessed valuation.
- Sales and use taxes (\$17.8 million) increased \$2.0 million (12.5 percent) with continued economic growth.
- Building permits and other licenses and permits are up \$.7 million from the previous year as development showed some increases, especially in commercial construction.
- Charges for service increased \$1.5 million primarily due to increased plan check and review fees with the increase in construction activity.
- General Fund expenditures increased \$2.8 million (4.1 percent) from the previous year with the largest increases in Public Safety (\$1.1 million increase) and Leisure Services (\$1.0 million increase). Overall, while the City faced increasing costs due to inflation and increased costs of employee benefits, the City has continued to closely monitor services and budgets to continue rebuilding reserves and creating sustainable programs. The increase in Public Safety is due to higher overtime, salaries for four new positions, and higher prisoner care costs. The increase in Leisure services is primarily \$.2 million in salaries and \$.65 million in supplies and services due to higher utility cost and increased maintenance costs at Showare.

Other major funds are the *Capital Improvement Fund*, the *Special Assessments Fund*, the *Non-voted General Obligation Debt Fund*, and the *Street Projects Fund*. Analysis of changes in net position from 2013 levels:

- *Capital Improvement Fund*. Fund balance increased by \$4.4 million with the second year of a portion of the business and occupation tax dedicated to this fund to rebuild fund balance. Although revenues increased by \$1.0 million in 2014, the fund still has a deficit fund balance of \$3.0 million at the end of 2014. The primary revenue sources for the Capital Improvement Fund are sales and use tax, utility tax, real estate excise tax, and business and occupation tax. The business and occupation tax and utility tax on internal City utilities were new revenues in 2013 as the City rebuilds this fund. In 2014, sales taxes, utility taxes and business and occupation taxes increased in this fund \$.5 million, \$.1 million and \$1.1 million respectively, while real estate taxes decreased \$.7 million. In 2014, the City also received \$2.3 million from the sale of land into this fund. This fund is responsible for the General Fund debt service payments, which accounts for \$7.3 million of the \$8.9 million in 2014 transfers out.
- *Special Assessments Fund*. Fund balance increased by \$.7 million. Revenue in the fund is primarily collected from property owners for special assessments related to their property and that money is used for payment of debt service related to those assessments as well as transfers to capital projects being funded by special assessments. In 2014, revenues decreased \$.9 million from 2013 revenues due to several improvement districts being completed and closed, which also resulted in debt service expenditures decreasing \$.5 million. Transfers out to capital projects increased \$1.4 million.
- *Non-voted General Obligation Debt Fund*. This fund pays the principal and interest payments on non-voted general obligation debt of the City. Funding is transfers in from various operating funds. Both expenditures and transfers in increased \$.3 million in 2014.

- *Street Projects Fund.* Fund balance increased \$1.7 million to \$8.4 million. Revenues increased \$.2 million due to grants, while transfers in, primarily from the street operating fund, to fund capital projects increased \$1.8 million. Expenditures on capital projects increased \$3.6 million.

**Proprietary Funds.** The City of Kent's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City's Enterprise utility funds continued to provide sufficient working capital to service their debt and fund capital outlays. Approximately \$1.1 million or .3 percent of the Enterprise funds' net position (\$334.7 million) is restricted for debt service bond covenant requirements. Analysis of changes in net position from prior fiscal year levels:

- *Water Fund.* Net position increased by \$7.2 million or 6.0 percent. This increase was due to net operating income of \$5.9 million, less non-operating net expenses of \$.4 million, plus capital contributions of \$1.7 million. Operating revenues increased by 8.2 percent or \$1.4 million primarily due to a 3 percent rate increase for meter access fees and usage rates per 100 cu. ft. effective January 1, 2014. Operating expenses decreased 7.0 percent or \$1.0 million with lower self-insured medical and liability insurance charges, as well as reductions in supplies. The operating income for 2014 was \$5.9 million as compared to \$3.6 million in 2013. Capital contributions decreased \$.7 million.
- *Sewerage Fund.* Fiscal year 2014 net position increased by \$21.3 million or 11.7 percent. While operating revenues increased \$2.2 million (5.2 percent), operating expenses increased \$.5 million (1.3 percent) compared to 2013 levels. A 3 percent rate increase was effective January 1, 2014 for single family sewer fees with no increase for storm drainage fees in 2014. The increase in expenses is due to increasing internal utility taxes (up \$.3 million) with the increased revenue (the tax is 3% of sewer and drainage customer charges), other services and charges (\$.1 million) and increased depreciation expense (\$.1 million) with additional capital assets.
- *Golf Complex.* Net position decreased by \$.4 million or 8.7 percent in fiscal year 2014. Operating revenues increased \$.5 million (2.2 percent), while expenses decreased by \$.5 million or 1.6 percent, but the facility continues to have a net operating loss in 2014.

Additional information on the City of Kent's Enterprise funds can be found in Note 12 on pages 74-76 of this report.

**GENERAL FUND BUDGETARY HIGHLIGHTS:****CITY OF KENT'S BUDGET ACTIVITY BY FUNCTION**  
**For the Year Ended December 31, 2014**  
(in thousands)

|                         | <b>Original<br/>Budget</b> | <b>Supplemental<br/>Appropriations</b> | <b>Final<br/>Budget</b> |
|-------------------------|----------------------------|----------------------------------------|-------------------------|
| General Government      | \$ 7,679                   | \$ 51                                  | \$ 7,730                |
| Judicial                | 2,939                      | -                                      | 2,939                   |
| Public Safety           | 35,001                     | 238                                    | 35,239                  |
| Community Development   | 5,740                      | 259                                    | 5,999                   |
| Public Works            | 4,553                      | 47                                     | 4,600                   |
| Leisure Services        | 10,372                     | 28                                     | 10,400                  |
| Health & Human Services | 4,932                      | 32                                     | 4,964                   |
|                         | \$ 71,216                  | \$ 655                                 | \$ 71,871               |

The General Fund's budget was increased by \$655,002 from the original budget. There were a few significant budget changes that occurred during the year, including:

- An adjustment was made to the Human Resources budget to carryover \$50,000 of professional services for city-wide training.
- An adjustment of \$70,000 was made to the Economic and Community Development budget to carry over expenditure authority for implementation of the Downtown Strategic Action Plan and Phase II of the ECD Strategic Plan.
- An adjustment of \$189,605 was made to increase the salaries, benefits and overtime budgets in Economic and Community Development to cover increased workload.
- An adjustment was made to add \$237,535 to the Public Safety budget to fund electronic monitoring services for the Corrections Facility.
- An adjustment of \$28,600 was made to increase the Parks budget for performers for cultural programs. The increase was offset by grant revenues.
- An adjustment of \$47,466 was made to increase salaries, benefits and overtime budgets in Public Works to cover increased workload.

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

- *Taxes.* Actual tax collections were \$2.6 million over budget. While all tax classifications were above budget, sales and use tax collections comprised the majority of the overage at nearly \$2.4 million or 15.2 percent over budget. The increased collections are largely the result of a strengthening economy and several large development projects. Property taxes and utility and other taxes were above budget by \$168,452 and \$69,717 respectively.

- *Licenses and Permits.* Licenses and permits were \$.6 million or 11.8 percent over budget. Both building permits and other licenses and permits ended the year above budget, largely as a result of increasing development activity.
- *Charges for Services.* Charges for services were about 31.2 percent or nearly \$1.6 million above budget. Of this revenue source, plan check fees were \$955,313 or 39.8 percent above budget, largely due to the recovery in the development and construction industry. Other fees, including parks and recreation fees were above budget by \$614,121 or 7.5 percent.
- *Functional Expenditures.* Overall, salaries and benefits ended the year under budget by \$1 million or 2.2 percent. Departments continue to closely monitor supplies and services expenditures to maintain savings wherever possible, so most of the general fund functions had budget savings in fiscal year 2014.
  - o *General Government Expenditures.* The general government expenses were \$653,921 or 8.5 percent under budget. This was primarily the result of vacant positions remaining open, as well as savings in supplies and services.
  - o *Leisure Services Expenditures.* Leisure services revenues were above budget by \$48,246 (4 percent) with a slight increase in the number of participants in some programs. Expenditures were \$403,989 (3.9 percent) below budget, primarily through close management of supplies costs. There were also small savings in salaries and benefits.
  - o *Community Development Expenditures.* Saved \$747,588 (12.5 percent), primarily in other professional services for consulting contracts that were awarded and began in 2014, but the work is not fully completed. As a result, the budget for a portion of these savings will be carried over to next year to complete these projects, including the comprehensive plan update, retail retention strategy, downtown strategic action plan implementation, and the ECD strategic plan. There were also savings in salaries and benefits.
  - o *Public Safety Expenditures.* Public safety had \$658,069 (1.9 percent) in budget savings in supplies and services, especially in the corrections, patrol, and traffic divisions.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION:**

**Capital Assets.** The City of Kent's capital assets for its governmental and business type activities as of December 31, 2014, were \$1.1 billion (net of accumulated depreciation), comprising 89.0 percent of the primary government's total assets at year-end. This investment in capital assets includes land, buildings, site improvements, equipment, infrastructure, and construction in progress as of that date.

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

Governmental Activities:

- *Infrastructure.* During 2014, infrastructure increased as projects were closed and capitalized totaling \$5.0 million. In addition, the City received developer contributions totaling \$21,136. The annual depreciation of \$10.7 million was also recorded resulting in the net decrease to infrastructure of \$5.7 million as compared to 2013.
- *Construction in Progress.* Construction in progress (\$106.4 million) remained almost unchanged from 2013. Fiscal year 2014 spending on projects approximated the capitalization of completed projects in which the assets were recorded as land, building, site improvements or infrastructure. The two largest projects to be capitalized were the Downtown ITS Improvements project in which \$5 million was capitalized to streets and IT systems project with \$2.2 million capitalized to equipment.
- *Land.* Land assets were increased by \$6,450 in 2014 with the capitalization of the Downtown ITS Improvements project.
- *Buildings.* Buildings increased \$2.7 million in 2014 with \$4 million in additions less \$1.3 million 2014 depreciation expense.
- *Site Improvements.* Net site improvements decreased by \$.2 million as compared to 2013 with \$2 million in additions (parks and public art) and \$2.2 million in 2014 depreciation.
- *Equipment.* Net equipment increased by \$.4 million in 2014. This was additions of \$1.2 million less net disposals of \$44,880 and depreciation of \$.8 million.

Business Type Activities:

- *Construction in Progress.* Compared to 2013, construction in progress increased \$17.2 million in 2014. This is primarily due to projects still in progress. Approximately \$25 million in ongoing projects were added to CIP in 2014, while \$7.8 million in projects were completed and capitalized from CIP into other capital asset categories.
  - o The 2014 additions to some projects in CIP at December 31, 2014 are:
    - \$3.3 million for Desimone levee improvements
    - \$1.1 million for Upper Russell Road levee improvements
    - \$7.1 million for Briscoe levee improvements
    - \$5.6 million for Tacoma intertie water supply pipeline
  - o Some projects that were completed and capitalized in 2014 are:
    - \$4 million for Citywide Storm Pipe & Culvert maintenance
    - \$1.2 million for Earthworks Overlays
    - \$.8 million for Green River Sandbag Removal project
- *Land.* Land assets were increased by \$1,500 in 2014 with the purchase of the Anderson property.

- *Site Improvements.* Additions to site improvements for 2014 were \$8.2 million and depreciation was \$5.8 million resulting in a net increase of \$2.4 million. The primary additions to site improvements were the result of completed projects that were part of construction in progress mentioned above plus \$.4 million in developer contributed assets.
- *Equipment.* Net equipment increased by \$.2 million in 2014. This was additions of \$.3 million less depreciation of \$.1 million. The primary addition to equipment was the purchase of a Chevy 4500 TV truck.

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

|                          | Governmental Activities |            | Business-Type Activities |            | Total Primary Government |             |
|--------------------------|-------------------------|------------|--------------------------|------------|--------------------------|-------------|
|                          | 2014                    | 2013       | 2014                     | 2013       | 2014                     | 2013        |
| Land                     | \$ 219,465              | \$ 219,458 | \$ 11,369                | \$ 11,367  | \$ 230,834               | \$ 230,825  |
| Buildings                | 102,130                 | 99,514     | 591                      | 743        | 102,721                  | 100,257     |
| Site Improvements        | 36,406                  | 36,677     | 160,359                  | 157,955    | 196,765                  | 194,632     |
| Equipment                | 10,336                  | 9,959      | 1,070                    | 845        | 11,406                   | 10,804      |
| Infrastructure           | 283,424                 | 289,077    | -                        | -          | 283,424                  | 289,077     |
| Construction in Progress | 106,361                 | 106,848    | 169,341                  | 152,077    | 275,702                  | 258,925     |
| Total Capital Assets     | \$ 758,122              | \$ 761,533 | \$ 342,730               | \$ 322,987 | \$1,100,852              | \$1,084,520 |

Additional information on the City of Kent's capital assets can be found in Note 7 on pages 66-67 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City of Kent had total bonded debt outstanding of \$76.9 million. Of this amount, \$54.8 million or 71.2 percent comprises general obligation debt backed by the full faith and credit of the government and \$2.0 million or 2.6 percent is special assessment debt. The special assessment bonds are supported solely by the property owners and the Local Improvement Guarantee Fund and are not a general obligation of the City. The City intends \$2.9 million or 5.4% of the outstanding general obligation bonded debt to be repaid through utility fund user fees. The remainder of the City of Kent's bonded debt (\$20.2 million) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

|                          | Governmental Activities |           | Business-Type Activities |           | Total Primary Government |           |
|--------------------------|-------------------------|-----------|--------------------------|-----------|--------------------------|-----------|
|                          | 2014                    | 2013      | 2014                     | 2013      | 2014                     | 2013      |
| General Obligation Bonds | \$ 51,818               | \$ 57,328 | \$ 2,938                 | \$ 3,665  | \$ 54,756                | \$ 60,993 |
| Special Assessment Bonds | 1,980                   | 2,700     | -                        | -         | 1,980                    | 2,700     |
| Revenue Bonds            | -                       | -         | 20,190                   | 21,165    | 20,190                   | 21,165    |
| Total Bonded Debt        | \$ 53,798               | \$ 60,028 | \$ 23,128                | \$ 24,830 | \$ 76,926                | \$ 84,858 |

The City of Kent's total bonded debt decreased by \$7.9 million or 9.4 percent during the current fiscal year. The City issued \$8.7 million in general obligation refunding bonds in 2014 that refunded \$8.9

million in outstanding 2004 series general obligation bonds. All required debt service payments were made during 2014.

At December 31, 2014, the City of Kent carried an "AA-" rating from Standard and Poor's as of February 1, 2014 and a "Baa2" rating from Moody's as of February 6, 2014. Both rating agencies upgraded the City's rating in February 2015 to AA from Standard & Poor's and A2 from Moody's.

The State of Washington limits the amount of general obligation debt a governmental entity may issue with and without a vote. The City's remaining unused debt capacity at year-end was \$983.8 million.

Additional information on the City of Kent's long-term debt can be found in Note 10 on pages 68-73 of this report.

### **ECONOMIC FACTORS AND BUDGETARY IMPACTS:**

In 2013 the City moved to a biennial budget process adopting a budget for 2013 and 2014. The City's biennial budget adopts two one-year budgets where the expenditure authority lapses at the end of each fiscal year (December 31<sup>st</sup>). The City includes a mid-biennium adjustment process for the between years of the biennium. The mid-biennium adjustment allows an opportunity for the City to adjust revenue projections and planned operating and capital expenditures.

The adopted 2014 budget recognized the continued economic challenges facing the City. The budget was built using conservative revenue estimates and was balanced based on those projections. The budget incorporated efficiencies, maintained the public's safety, and honored the strategic goals set by Council. It continued the diversification of the City's tax base which began in 2013 and took steps towards stabilizing the City's financial future. This approach has helped the City to achieve the target reserve fund balance of 10% of expenditures, fully fund the Contingency for Unanticipated Costs of \$1.5 million, provide funding of \$424,000 to the Strategic Opportunities Fund, and eliminate negative fund balances in our ShoWare Operating Fund.

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

The City is experiencing growth in building permit and plan check fees as our local economy begins to recover. Although this revenue is coming in considerably over budget, it is anticipated that much of this growth is attributable to "one-time" activity.

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

**REQUESTS FOR INFORMATION:**

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

City of Kent  
Finance Department  
220 Fourth Avenue South  
Kent, WA 98032-5895  
[www.kentwa.gov](http://www.kentwa.gov)

**CITY OF KENT**  
**STATEMENT OF NET POSITION**  
**December 31, 2014**

|                                                                                      | <b>Primary Government</b> |                       |                         | <b>Component Unit</b>            |
|--------------------------------------------------------------------------------------|---------------------------|-----------------------|-------------------------|----------------------------------|
|                                                                                      | <b>Governmental</b>       | <b>Business-Type</b>  | <b>Total</b>            | <b>Special Events Center PFD</b> |
|                                                                                      | <b>Activities</b>         | <b>Activities</b>     |                         |                                  |
| <b>ASSETS</b>                                                                        |                           |                       |                         |                                  |
| Cash and cash equivalents (Note 4)                                                   | \$ 52,518,881             | \$ 27,468,856         | \$ 79,987,737           | \$ 5,071                         |
| Cash with fiscal agent/trustee                                                       | 60,000                    | 73,264                | 133,264                 | -                                |
| Investments, at fair value (Note 4)                                                  | 254,874                   | 667                   | 255,541                 | -                                |
| Receivables (net of allowances) (Note 5)                                             | 27,585,155                | 18,733,974            | 46,319,129              | 144,028                          |
| Internal balances (Note 6)                                                           | (3,326,104)               | 3,326,104             | -                       | -                                |
| Inventory, at cost (Note 6)                                                          | 107,136                   | 533,092               | 640,228                 | -                                |
| Prepaid items                                                                        | 882,967                   | 901                   | 883,868                 | 845,205                          |
| Investment in Joint Venture (Note 16)                                                | 7,530,787                 | -                     | 7,530,787               | -                                |
| Restricted assets:                                                                   |                           |                       |                         |                                  |
| Cash and cash equivalents (Note 4)                                                   | -                         | 2,306,543             | 2,306,543               | -                                |
| Note receivable from component unit (Note 5)                                         | 18,719,297                | -                     | 18,719,297              | -                                |
| Less: Allowance for uncollectible                                                    | (18,719,297)              | -                     | (18,719,297)            | -                                |
| Net OPEB obligation                                                                  | 335,218                   | -                     | 335,218                 | -                                |
| Property, plant, and equipment: (Note 7)                                             |                           |                       |                         |                                  |
| Not being depreciated                                                                | 325,825,694               | 180,709,944           | 506,535,638             | -                                |
| Being depreciated, net of depreciation                                               | 432,296,354               | 162,020,518           | 594,316,872             | -                                |
| <b>TOTAL ASSETS</b>                                                                  | <b>844,070,962</b>        | <b>395,173,863</b>    | <b>1,239,244,825</b>    | <b>994,304</b>                   |
| <b>DEFERRED OUTFLOWS</b>                                                             |                           |                       |                         |                                  |
| Deferred loss on refundings                                                          | 554,382                   | 131,683               | 686,065                 | -                                |
| <b>TOTAL DEFERRED OUTFLOWS</b>                                                       | <b>554,382</b>            | <b>131,683</b>        | <b>686,065</b>          | <b>-</b>                         |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS</b>                                          | <b>844,625,344</b>        | <b>395,305,546</b>    | <b>1,239,930,890</b>    | <b>994,304</b>                   |
| <b>LIABILITIES</b>                                                                   |                           |                       |                         |                                  |
| Vouchers payable                                                                     | 2,739,999                 | 1,065,222             | 3,805,221               | -                                |
| Matured bonds/interest payable                                                       | 60,000                    | -                     | 60,000                  | -                                |
| Accounts/payroll payable                                                             | 3,871,752                 | 1,033,329             | 4,905,081               | -                                |
| Incurred but not reported claims payable                                             | 4,195,026                 | -                     | 4,195,026               | -                                |
| Due to other governments                                                             | 142,601                   | -                     | 142,601                 | -                                |
| Accrued interest payable                                                             | 217,317                   | 180,399               | 397,716                 | 251,288                          |
| Unearned revenue                                                                     | 8,298,297                 | 312,978               | 8,611,275               | -                                |
| Non-current liabilities:                                                             |                           |                       |                         |                                  |
| Due within one year (Note 10)                                                        |                           |                       |                         |                                  |
| Compensated absences-current                                                         | 1,589,308                 | 259,935               | 1,849,243               | -                                |
| Contracts, leases, notes-current                                                     | 1,786,103                 | 1,639,028             | 3,425,131               | -                                |
| General obligation bonds payable-current                                             | 5,069,385                 | 513,615               | 5,583,000               | -                                |
| Special assessment bonds payable with governmental commitment-current                | 725,000                   | -                     | 725,000                 | -                                |
| Revenue bonds payable-current                                                        | -                         | 1,015,000             | 1,015,000               | 865,000                          |
| Due in more than one year (Note 10)                                                  |                           |                       |                         |                                  |
| Compensated absences-long term                                                       | 2,578,868                 | 153,057               | 2,731,925               | -                                |
| Contracts, leases, notes-long term                                                   | 14,771,811                | 32,340,416            | 47,112,227              | 18,719,297                       |
| General obligation bonds payable-long term (net of unamortized discounts & premiums) | 47,740,973                | 2,626,837             | 50,367,810              | -                                |
| Special assessment bonds payable- long term                                          | 1,255,000                 | -                     | 1,255,000               | -                                |
| Revenue bonds payable-long term (net of unamortized discounts & premiums)            | -                         | 19,418,172            | 19,418,172              | 59,470,604                       |
| Contingent loan guarantee obligation (Note 18)                                       | 76,809,813                | -                     | 76,809,813              | -                                |
| <b>TOTAL LIABILITIES</b>                                                             | <b>171,851,253</b>        | <b>60,557,988</b>     | <b>232,409,241</b>      | <b>79,306,189</b>                |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS</b>                                      | <b>171,851,253</b>        | <b>60,557,988</b>     | <b>232,409,241</b>      | <b>79,306,189</b>                |
| <b>NET POSITION</b>                                                                  |                           |                       |                         |                                  |
| Net investment in capital assets                                                     | 687,527,061               | 287,867,561           | 975,394,622             | -                                |
| Restricted net position for:                                                         |                           |                       |                         |                                  |
| Debt service                                                                         | 9,499,778                 | 1,111,144             | 10,610,922              | -                                |
| Unrestricted net position                                                            | (24,252,748)              | 45,768,853            | 21,516,105              | (78,311,885)                     |
| <b>TOTAL NET POSITION</b>                                                            | <b>\$ 672,774,091</b>     | <b>\$ 334,747,558</b> | <b>\$ 1,007,521,649</b> | <b>\$ (78,311,885)</b>           |

The accompanying notes are an integral part of the financial statements

CITY OF KENT  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2014

| FUNCTIONS/PROGRAMS             | Expenses       | Program Revenues     |                                    |                                  |
|--------------------------------|----------------|----------------------|------------------------------------|----------------------------------|
|                                |                | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government:            |                |                      |                                    |                                  |
| Governmental Activities:       |                |                      |                                    |                                  |
| General Government             | \$ 7,342,670   | \$ 3,483,161         | \$ 3,694                           | \$ -                             |
| Judicial                       | 2,789,535      | 1,846,731            | 220,008                            | -                                |
| Public Safety                  | 38,744,658     | 3,388,295            | 2,757,290                          | -                                |
| Community Development          | 5,175,651      | 5,006,297            | -                                  | -                                |
| Public Works                   | 17,371,560     | 2,185,990            | 2,365,184                          | 1,865,263                        |
| Leisure services               | 13,861,675     | 1,418,600            | 49,094                             | 983,068                          |
| Health and human services      | 5,478,974      | 841,690              | 771,230                            | 88,400                           |
| Interest on long-term debt     | 2,804,432      | -                    | -                                  | -                                |
| Total governmental activities  | 93,569,155     | 18,170,764           | 6,166,500                          | 2,936,731                        |
| Business-type Activities:      |                |                      |                                    |                                  |
| Water                          | 13,070,155     | 18,416,162           | 128,014                            | 1,707,303                        |
| Sewerage                       | 37,951,697     | 44,969,699           | 45,024                             | 14,085,176                       |
| Golf Complex                   | 2,872,165      | 2,485,348            | 3,946                              | -                                |
| Total business type activities | 53,894,017     | 65,871,209           | 176,984                            | 15,792,479                       |
| Total Primary Government       | \$ 147,463,172 | \$ 84,041,973        | \$ 6,343,484                       | \$ 18,729,210                    |
| Component Unit:                |                |                      |                                    |                                  |
| Special Events Center PFD      | \$ 3,532,861   | \$ -                 | \$ -                               | \$ -                             |
| Total Component Units          | \$ 3,532,861   | \$ -                 | \$ -                               | \$ -                             |

**General revenues:**

Taxes:

Property taxes levied for general purpose

Sales taxes

Utility taxes

Business & occupation tax

Real Estate Excise Tax

Other taxes

Grants and contributions not restricted to specific programs

Interest income

Miscellaneous

Gain(Loss) on disposal of capital asset

Transfers

**Total general revenues, special items, and transfers**

Change in net position

**Net position - beginning**

Prior Period Adjustment

**Beginning net assets - adjusted**

**Net position-ending**

The accompanying notes are an integral part of the financial statements

| Net (Expenses) Revenue and Changes in Net Position |                             |                         |                        |
|----------------------------------------------------|-----------------------------|-------------------------|------------------------|
|                                                    |                             |                         | Component Unit         |
| Primary Government                                 |                             |                         | Special Events         |
| Governmental<br>Activities                         | Business-Type<br>Activities | Total                   | Center<br>PFD          |
| \$ (3,855,815)                                     |                             | \$ (3,855,815)          |                        |
| (722,796)                                          |                             | (722,796)               |                        |
| (32,599,073)                                       |                             | (32,599,073)            |                        |
| (169,354)                                          |                             | (169,354)               |                        |
| (10,955,123)                                       |                             | (10,955,123)            |                        |
| (11,410,913)                                       |                             | (11,410,913)            |                        |
| (3,777,654)                                        |                             | (3,777,654)             |                        |
| (2,804,432)                                        |                             | (2,804,432)             |                        |
| <u>(66,295,160)</u>                                |                             | <u>(66,295,160)</u>     |                        |
|                                                    | \$ 7,181,324                | 7,181,324               |                        |
|                                                    | 21,148,202                  | 21,148,202              |                        |
|                                                    | <u>(382,871)</u>            | <u>(382,871)</u>        |                        |
|                                                    | 27,946,655                  | 27,946,655              |                        |
| \$ <u>(66,295,160)</u>                             | \$ <u>27,946,655</u>        | \$ <u>(38,348,505)</u>  |                        |
|                                                    |                             |                         | \$ <u>(3,532,861)</u>  |
|                                                    |                             |                         | \$ <u>(3,532,861)</u>  |
| 20,599,891                                         | -                           | 20,599,891              | -                      |
| 25,332,356                                         | -                           | 25,332,356              | 784,330                |
| 22,962,565                                         | -                           | 22,962,565              | -                      |
| 6,208,946                                          | -                           | 6,208,946               | -                      |
| 3,184,596                                          | -                           | 3,184,596               | -                      |
| 1,356,198                                          | -                           | 1,356,198               | -                      |
| 6,851,351                                          | -                           | 6,851,351               | -                      |
| 1,052,762                                          | 124,777                     | 1,177,539               | 308                    |
| 162,971                                            | -                           | 162,971                 | -                      |
| 2,433,112                                          | -                           | 2,433,112               | -                      |
| (16,729)                                           | 16,729                      | -                       | -                      |
| 90,128,019                                         | 141,506                     | 90,269,525              | 784,638                |
| 23,832,859                                         | 28,088,161                  | 51,921,020              | (2,748,223)            |
| 728,898,185                                        | 304,633,293                 | 1,033,531,478           | (60,100,035)           |
| <u>(79,956,953)</u>                                | <u>2,026,104</u>            | <u>(77,930,849)</u>     | <u>(15,463,627)</u>    |
| <u>648,941,232</u>                                 | <u>306,659,397</u>          | <u>955,600,629</u>      | <u>(75,563,662)</u>    |
| \$ <u>672,774,091</u>                              | \$ <u>334,747,558</u>       | \$ <u>1,007,521,649</u> | \$ <u>(78,311,885)</u> |

The accompanying notes are an integral part of this statement

CITY OF KENT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
December 31, 2014

|                                                                  | General<br>Fund      | Capital<br>Improvement<br>Fund | Special<br>Assessments<br>Fund | Non-Voted<br>General Obligation<br>Debt Fund |
|------------------------------------------------------------------|----------------------|--------------------------------|--------------------------------|----------------------------------------------|
| <b>ASSETS</b>                                                    |                      |                                |                                |                                              |
| Cash and cash equivalents                                        | \$ 11,984,425        | \$ 1,069                       | \$ 4,303,182                   | \$ -                                         |
| Cash with fiscal agent                                           | -                    | -                              | 60,000                         | -                                            |
| Receivables (net of allowances for<br>estimated uncollectibles): |                      |                                |                                |                                              |
| Taxes                                                            | 7,876,728            | 1,223,819                      | -                              | -                                            |
| Accounts                                                         | 420,897              | -                              | -                              | -                                            |
| Special assessments                                              |                      |                                |                                |                                              |
| Current                                                          | -                    | -                              | 1,381,584                      | -                                            |
| Delinquent                                                       | -                    | -                              | 373,704                        | -                                            |
| Unavailable                                                      | -                    | -                              | 9,728,804                      | -                                            |
| Penalty and Interest                                             | -                    | -                              | 938,763                        | -                                            |
| Interfund loans receivable                                       | 70,000               | -                              | -                              | -                                            |
| Prepaid items                                                    | 96,544               | -                              | -                              | -                                            |
| <b>TOTAL ASSETS</b>                                              | <u>20,448,594</u>    | <u>1,224,888</u>               | <u>16,786,037</u>              | <u>-</u>                                     |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>                        | <u>\$ 20,448,594</u> | <u>\$ 1,224,888</u>            | <u>\$ 16,786,037</u>           | <u>\$ -</u>                                  |
| <b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</b>           |                      |                                |                                |                                              |
| <b>LIABILITIES</b>                                               |                      |                                |                                |                                              |
| Vouchers payable                                                 | \$ 1,493,685         | \$ 6,429                       | \$ 482                         | \$ -                                         |
| Matured bonds/interest payable                                   | -                    | -                              | 60,000                         | -                                            |
| Accounts/payroll payable                                         | 2,871,748            | -                              | -                              | -                                            |
| Due to other governments                                         | 116,445              | -                              | -                              | -                                            |
| Interfund loans payable                                          | 506,526              | 4,225,000                      | -                              | -                                            |
| Deposits and advances                                            | 741,124              | -                              | -                              | -                                            |
| Interfund loan payable - non-current                             | 1,519,578            | -                              | -                              | -                                            |
| <b>Total Liabilities</b>                                         | <u>7,249,106</u>     | <u>4,231,429</u>               | <u>60,482</u>                  | <u>-</u>                                     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                             |                      |                                |                                |                                              |
| Unavailable revenue                                              | 396,911              | -                              | 12,422,855                     | -                                            |
| <b>Total Deferred Inflows of Resources</b>                       | <u>396,911</u>       | <u>-</u>                       | <u>12,422,855</u>              | <u>-</u>                                     |
| <b>FUND BALANCE</b>                                              |                      |                                |                                |                                              |
| <b>Nonspendable:</b>                                             |                      |                                |                                |                                              |
| Prepaid items                                                    | 96,544               | -                              | -                              | -                                            |
| <b>Restricted:</b>                                               |                      |                                |                                |                                              |
| Annexation                                                       | 2,058,008            | -                              | -                              | -                                            |
| Street capital projects                                          | -                    | -                              | -                              | -                                            |
| Lodging tax purposes                                             | -                    | -                              | -                              | -                                            |
| Criminal justice programs                                        | -                    | -                              | -                              | -                                            |
| Parks capital projects                                           | -                    | -                              | -                              | -                                            |
| Facility capital projects                                        | -                    | -                              | -                              | -                                            |
| Special assessment debt                                          | -                    | -                              | 4,104,700                      | -                                            |
| Assessment debt guaranty                                         | -                    | -                              | 198,000                        | -                                            |
| Economic and community development                               | 53,773               | -                              | -                              | -                                            |
| Human Services                                                   | 5,017                | -                              | -                              | -                                            |
| <b>Committed:</b>                                                |                      |                                |                                |                                              |
| Street operations                                                | -                    | -                              | -                              | -                                            |
| Youth/Teen program                                               | -                    | -                              | -                              | -                                            |
| Criminal justice programs                                        | -                    | -                              | -                              | -                                            |
| City arts program                                                | 281,177              | -                              | -                              | -                                            |
| Street capital projects                                          | -                    | -                              | -                              | -                                            |
| Parks capital projects                                           | -                    | -                              | -                              | -                                            |
| Technology systems                                               | -                    | -                              | -                              | -                                            |
| <b>Assigned:</b>                                                 |                      |                                |                                |                                              |
| Public safety retiree OPEB                                       | 1,030,551            | -                              | -                              | -                                            |
| Human services                                                   | 98,291               | -                              | -                              | -                                            |
| Criminal justice programs                                        | -                    | -                              | -                              | -                                            |
| Street capital projects                                          | -                    | -                              | -                              | -                                            |
| Parks capital Projects                                           | -                    | -                              | -                              | -                                            |
| Technology capital Projects                                      | -                    | -                              | -                              | -                                            |
| Facility capital projects                                        | -                    | -                              | -                              | -                                            |
| <b>Unassigned:</b>                                               | <u>9,179,216</u>     | <u>(3,006,541)</u>             | <u>-</u>                       | <u>-</u>                                     |
| <b>Total Fund Balance</b>                                        | <u>12,802,577</u>    | <u>(3,006,541)</u>             | <u>4,302,700</u>               | <u>-</u>                                     |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</b>     | <u>\$ 20,448,594</u> | <u>\$ 1,224,888</u>            | <u>\$ 16,786,037</u>           | <u>\$ -</u>                                  |

The accompanying notes are an integral part of the financial statements

| Street<br>Capital<br>Projects Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------|--------------------------------|--------------------------------|
| \$ 8,738,117                       | \$ 8,094,408                   | \$ 33,121,201                  |
| -                                  | -                              | 60,000                         |
| -                                  | 1,292,710                      | 10,393,257                     |
| 142,773                            | 1,657,739                      | 2,221,409                      |
| -                                  | -                              | 1,381,584                      |
| -                                  | -                              | 373,704                        |
| -                                  | -                              | 9,728,804                      |
| -                                  | -                              | 938,763                        |
| -                                  | -                              | 70,000                         |
| -                                  | 4,295                          | 100,839                        |
| <u>8,880,890</u>                   | <u>11,049,152</u>              | <u>58,389,561</u>              |
| <u>\$ 8,880,890</u>                | <u>\$ 11,049,152</u>           | <u>\$ 58,389,561</u>           |
| \$ 299,169                         | \$ 257,854                     | \$ 2,057,619                   |
| -                                  | -                              | 60,000                         |
| 183,481                            | 356,584                        | 3,411,813                      |
| 291                                | 25,865                         | 142,601                        |
| -                                  | 145,000                        | 4,876,526                      |
| -                                  | 330,146                        | 1,071,270                      |
| -                                  | -                              | 1,519,578                      |
| <u>482,941</u>                     | <u>1,115,449</u>               | <u>13,139,407</u>              |
| -                                  | 4,696                          | 12,824,462                     |
| <u>-</u>                           | <u>4,696</u>                   | <u>12,824,462</u>              |
| -                                  | 4,295                          | 100,839                        |
| -                                  | -                              | 2,058,008                      |
| 3,735,698                          | 79,345                         | 3,815,043                      |
| -                                  | 371,803                        | 371,803                        |
| -                                  | 1,404,384                      | 1,404,384                      |
| -                                  | 1,386,666                      | 1,386,666                      |
| -                                  | 1,283,892                      | 1,283,892                      |
| -                                  | -                              | 4,104,700                      |
| -                                  | -                              | 198,000                        |
| -                                  | -                              | 53,773                         |
| -                                  | -                              | 5,017                          |
| -                                  | 1,328,611                      | 1,328,611                      |
| -                                  | 147,063                        | 147,063                        |
| -                                  | 911,846                        | 911,846                        |
| -                                  | -                              | 281,177                        |
| 4,662,251                          | -                              | 4,662,251                      |
| -                                  | 20,406                         | 20,406                         |
| -                                  | 1,602,146                      | 1,602,146                      |
| -                                  | -                              | 1,030,551                      |
| -                                  | -                              | 98,291                         |
| -                                  | 63,601                         | 63,601                         |
| -                                  | 16,132                         | 16,132                         |
| -                                  | 1,232,832                      | 1,232,832                      |
| -                                  | 31,928                         | 31,928                         |
| -                                  | 61,430                         | 61,430                         |
| -                                  | (17,373)                       | 6,155,302                      |
| <u>8,397,949</u>                   | <u>9,929,007</u>               | <u>32,425,692</u>              |
| <u>\$ 8,880,890</u>                | <u>\$ 11,049,152</u>           | <u>\$ 58,389,561</u>           |

The accompanying notes are an integral part of the financial statements

**CITY OF KENT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

|                                                                                                                                                                                                                                                                                                                                                                                       |                     |                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------------|
| Fund balance - total governmental funds                                                                                                                                                                                                                                                                                                                                               | \$                  | 32,425,692                |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds (Does not include Internal Service Fund capital assets)                                                                                                                                                                                           |                     |                           |
| Cost of capital assets                                                                                                                                                                                                                                                                                                                                                                | \$                  | 1,081,785,254             |
| Accumulated depreciation                                                                                                                                                                                                                                                                                                                                                              |                     | <u>(328,981,955)</u>      |
|                                                                                                                                                                                                                                                                                                                                                                                       |                     | 752,803,299               |
| Investment in Joint Venture (Note 16)                                                                                                                                                                                                                                                                                                                                                 |                     | 7,530,787                 |
| Internal Service Funds are used by management to charge the costs of fleet management, central services, management information systems, facility rental and maintenance, and self-insurance costs to individual funds. The assets, including capital assets, and liabilities of the Internal Service Funds are included in governmental activities in the statement of net position. |                     | 25,594,792                |
| Interest accrued on governmental long-term debt, but not due and payable in the current period, is not reported on the governmental fund statements, but is accrued and reported on the statement of net position                                                                                                                                                                     |                     |                           |
| Councilmanic general obligation bonds                                                                                                                                                                                                                                                                                                                                                 | (191,470)           |                           |
| LID bonds                                                                                                                                                                                                                                                                                                                                                                             | (5,099)             |                           |
| Contracts & loans                                                                                                                                                                                                                                                                                                                                                                     | <u>(20,748)</u>     | (217,317)                 |
| Property tax revenue earned but not received within 60 days of year-end, and therefore not available to pay current year liabilities, are deferred inflows on the governmental statements, but is recognized as revenue for the government-wide statements                                                                                                                            |                     |                           |
| General Fund                                                                                                                                                                                                                                                                                                                                                                          | 396,911             |                           |
| Voted Debt Service Fund                                                                                                                                                                                                                                                                                                                                                               | <u>4,696</u>        | 401,607                   |
| Deferred inflows for long-term special assessments is shown on the government funds balance sheet, but is not a deferred inflow on the statement of net position                                                                                                                                                                                                                      |                     | 5,197,078                 |
| Unamortized bond costs are not reported on the governmental fund statements, but are reported on the statement of net position                                                                                                                                                                                                                                                        |                     |                           |
| Prepaid bond insurance                                                                                                                                                                                                                                                                                                                                                                | 41,790              |                           |
| Deferred loss on refunding                                                                                                                                                                                                                                                                                                                                                            | 554,382             |                           |
| Unamortized bond (premium)/discount                                                                                                                                                                                                                                                                                                                                                   | <u>(992,003)</u>    | (395,831)                 |
| Long-term liabilities, including bonds and contracts, are not due and payable in the current period and therefore are not reported in the governmental funds                                                                                                                                                                                                                          |                     |                           |
| General obligation bonds                                                                                                                                                                                                                                                                                                                                                              | (51,818,355)        |                           |
| Special assessment bonds                                                                                                                                                                                                                                                                                                                                                              | (1,980,000)         |                           |
| Contracts, leases and notes                                                                                                                                                                                                                                                                                                                                                           | (16,557,914)        |                           |
| Compensated absences                                                                                                                                                                                                                                                                                                                                                                  | (3,735,152)         |                           |
| OPEB liability                                                                                                                                                                                                                                                                                                                                                                        | 335,218             |                           |
| Contingent loan guarantee                                                                                                                                                                                                                                                                                                                                                             | <u>(76,809,813)</u> | (150,566,016)             |
| Net Position of governmental activities (page 23)                                                                                                                                                                                                                                                                                                                                     |                     | <u><u>672,774,091</u></u> |

The accompanying notes are an integral part of the financial statements

**CITY OF KENT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**For the Year Ended December 31, 2014**

|                                                                  | General<br>Fund      | Capital<br>Improvement<br>Fund | Special<br>Assessments<br>Fund | Non-Voted<br>General Obligation<br>Debt Fund |
|------------------------------------------------------------------|----------------------|--------------------------------|--------------------------------|----------------------------------------------|
| <b>REVENUES</b>                                                  |                      |                                |                                |                                              |
| Taxes:                                                           |                      |                                |                                |                                              |
| Property                                                         | \$ 20,696,272        | \$ -                           | \$ -                           | \$ -                                         |
| Sales and use                                                    | 17,761,585           | 5,323,729                      | -                              | -                                            |
| Utility                                                          | 17,775,687           | 1,243,121                      | -                              | -                                            |
| Business & occupation                                            | 303,600              | 1,279,740                      | -                              | -                                            |
| Real estate excise tax                                           | -                    | 3,184,596                      | -                              | -                                            |
| Lodging                                                          | -                    | -                              | -                              | -                                            |
| Other                                                            | 1,106,821            | -                              | -                              | -                                            |
| Licenses and permits:                                            |                      |                                |                                |                                              |
| Building permits                                                 | 3,074,546            | -                              | -                              | -                                            |
| Other licenses and permits                                       | 2,744,069            | -                              | -                              | -                                            |
| Intergovernmental revenue                                        | 7,515,935            | -                              | -                              | -                                            |
| Charges for services:                                            |                      |                                |                                |                                              |
| Park and recreation fees                                         | 1,664,221            | -                              | -                              | -                                            |
| Other fees and charges                                           | 4,935,083            | -                              | -                              | -                                            |
| Fines and forfeitures                                            | 1,284,798            | -                              | -                              | -                                            |
| Miscellaneous revenue:                                           |                      |                                |                                |                                              |
| Special assessments                                              | -                    | -                              | 2,387,329                      | -                                            |
| Interest income                                                  | 156,879              | 1,617                          | 727,899                        | -                                            |
| Contributions and Donations                                      | 853,450              | -                              | -                              | -                                            |
| Other miscellaneous revenue                                      | 926,248              | -                              | -                              | -                                            |
| <b>TOTAL REVENUES</b>                                            | <b>80,799,194</b>    | <b>11,032,803</b>              | <b>3,115,228</b>               | <b>-</b>                                     |
| <b>EXPENDITURES</b>                                              |                      |                                |                                |                                              |
| Current:                                                         |                      |                                |                                |                                              |
| General government                                               | 7,101,445            | 42,149                         | 271                            | -                                            |
| Judicial                                                         | 2,849,954            | -                              | -                              | -                                            |
| Public safety                                                    | 35,467,912           | -                              | -                              | -                                            |
| Community development                                            | 5,251,662            | -                              | -                              | -                                            |
| Public works                                                     | 4,929,327            | -                              | -                              | -                                            |
| Leisure services                                                 | 10,992,192           | 2,729,824                      | -                              | -                                            |
| Health and human services                                        | 4,759,123            | -                              | -                              | -                                            |
| Debt service:                                                    |                      |                                |                                |                                              |
| Principal                                                        | -                    | -                              | 747,256                        | 7,349,895                                    |
| Interest                                                         | -                    | -                              | 124,207                        | 2,573,493                                    |
| Capital outlay                                                   | 8,000                | -                              | -                              | -                                            |
| <b>TOTAL EXPENDITURES</b>                                        | <b>71,359,615</b>    | <b>2,771,973</b>               | <b>871,734</b>                 | <b>9,923,388</b>                             |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> | <b>9,439,579</b>     | <b>8,260,830</b>               | <b>2,243,494</b>               | <b>(9,923,388)</b>                           |
| <b>OTHER FINANCING SOURCES (USES)</b>                            |                      |                                |                                |                                              |
| Issuance of LTGO Refunding Bonds                                 | -                    | -                              | -                              | -                                            |
| Payment to Refunded Bond Escrow Agent                            | -                    | -                              | -                              | -                                            |
| Premium on general obligation bonds                              | -                    | -                              | -                              | -                                            |
| Sale of capital assets                                           | -                    | 2,314,228                      | -                              | -                                            |
| Transfers in                                                     | 931,217              | 2,766,676                      | -                              | 9,923,205                                    |
| Transfers out                                                    | (3,822,042)          | (8,925,896)                    | (1,555,750)                    | -                                            |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                      | <b>(2,890,825)</b>   | <b>(3,844,992)</b>             | <b>(1,555,750)</b>             | <b>9,923,205</b>                             |
| <b>NET CHANGE IN FUND BALANCE</b>                                | <b>6,548,754</b>     | <b>4,415,838</b>               | <b>687,744</b>                 | <b>(183)</b>                                 |
| <b>FUND BALANCE, January 1</b>                                   | <b>8,279,927</b>     | <b>(7,422,379)</b>             | <b>3,614,956</b>               | <b>183</b>                                   |
| Prior period correction                                          | (2,026,104)          | -                              | -                              | -                                            |
| <b>ADJUSTED FUND BALANCE, January 1</b>                          | <b>6,253,823</b>     | <b>(7,422,379)</b>             | <b>3,614,956</b>               | <b>183</b>                                   |
| <b>FUND BALANCE (DEFICIT), December 31</b>                       | <b>\$ 12,802,577</b> | <b>\$ (3,006,541)</b>          | <b>\$ 4,302,700</b>            | <b>\$ -</b>                                  |

The accompanying notes are an integral part of the financial statements

| Street<br>Capital<br>Projects Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------|--------------------------------|--------------------------------|
| \$ -                               | \$ -                           | \$ 20,696,272                  |
| -                                  | 2,247,042                      | 25,332,356                     |
| -                                  | 3,943,757                      | 22,962,565                     |
| -                                  | 4,625,606                      | 6,208,946                      |
| -                                  | -                              | 3,184,596                      |
| -                                  | 249,377                        | 249,377                        |
| -                                  | -                              | 1,106,821                      |
| -                                  | -                              | 3,074,546                      |
| -                                  | -                              | 2,744,069                      |
| 1,133,317                          | 5,382,860                      | 14,032,112                     |
| -                                  | -                              | 1,664,221                      |
| 560                                | 1,007,276                      | 5,942,919                      |
| -                                  | 1,189,092                      | 2,473,890                      |
| -                                  | -                              | 2,387,329                      |
| 5,347                              | 11,020                         | 902,762                        |
| 322,170                            | 70,213                         | 1,245,833                      |
| -                                  | 266,861                        | 1,193,109                      |
| <u>1,461,394</u>                   | <u>18,993,104</u>              | <u>115,401,723</u>             |
| -                                  | -                              | 7,143,865                      |
| -                                  | -                              | 2,849,954                      |
| -                                  | 4,435,078                      | 39,902,990                     |
| -                                  | 71,441                         | 5,323,103                      |
| -                                  | 2,719,574                      | 7,648,901                      |
| -                                  | 342,000                        | 14,064,016                     |
| -                                  | 835,776                        | 5,594,899                      |
| -                                  | -                              | 8,097,151                      |
| -                                  | 286,574                        | 2,984,274                      |
| <u>7,128,768</u>                   | <u>3,388,447</u>               | <u>10,525,215</u>              |
| 7,128,768                          | 12,078,890                     | 104,134,368                    |
| (5,667,374)                        | 6,914,214                      | 11,267,355                     |
| -                                  | 8,671,070                      | 8,671,070                      |
| -                                  | (8,929,574)                    | (8,929,574)                    |
| -                                  | 547,704                        | 547,704                        |
| 118,874                            | -                              | 2,433,102                      |
| 7,300,398                          | 3,515,445                      | 24,436,941                     |
| <u>(61,561)</u>                    | <u>(8,799,714)</u>             | <u>(23,164,963)</u>            |
| 7,357,711                          | (4,995,069)                    | 3,994,280                      |
| 1,690,337                          | 1,919,145                      | 15,261,635                     |
| 6,707,612                          | 8,009,862                      | 19,190,161                     |
| -                                  | -                              | (2,026,104)                    |
| 6,707,612                          | 8,009,862                      | 17,164,057                     |
| <u>\$ 8,397,949</u>                | <u>\$ 9,929,007</u>            | <u>\$ 32,425,692</u>           |

The accompanying notes are an integral part of the financial statements

**CITY OF KENT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|                                                       |    |            |
|-------------------------------------------------------|----|------------|
| Net change in fund balance - total governmental funds | \$ | 15,261,635 |
|-------------------------------------------------------|----|------------|

Governmental funds report capital outlays as expenditures. On the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                      |    |                     |             |
|----------------------|----|---------------------|-------------|
| Capital outlays      | \$ | 10,525,215          |             |
| Depreciation expense |    | <u>(15,101,892)</u> | (4,576,677) |

|                                                                                                            |  |         |
|------------------------------------------------------------------------------------------------------------|--|---------|
| The net effect of various miscellaneous transactions involving capital assets is to increase net position. |  | 153,225 |
|------------------------------------------------------------------------------------------------------------|--|---------|

|                                                                                                                                                                                 |  |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------|
| Certain revenues are unavailable in the governmental funds because they do not provide current financial resources, but are considered revenues on the statement of activities. |  |          |
| Property taxes                                                                                                                                                                  |  | (96,381) |

|                                                                                                                                                                                                    |  |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|
| Special assessment principal payments received are revenues on the governmental operating statement, but are reductions to the outstanding special assessment debt on the Statement of Activities. |  | (1,908,283) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|

|                                                                                                                                                                     |  |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------|
| The issuance of long-term debt provides current financial resources in the governmental funds, but creates a long-term liability on the government-wide statements. |  | 85,963 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------|

|                                                                                                                                                          |                  |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|
| Repayment of bonds/contracts principal is an expenditure in the governmental funds, but reduces long-term liabilities on the government-wide statements. |                  |           |
| Principal repayments                                                                                                                                     | <u>8,097,151</u> | 8,097,151 |

|                                                                                                                                                                                                                                                                                                                                                 |                  |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|
| Certain bond transactions, like premiums, discounts, insurance and loss of refunding, are reported as revenues or expenditures in the governmental funds because they provide, or use, current financial resources. However, for the government-wide statements, these costs are recognized or amortized (expensed) over the life of the bonds. |                  |           |
| Amortization of prepaid bond insurance                                                                                                                                                                                                                                                                                                          | (6,607)          |           |
| Amortization of premium/discount                                                                                                                                                                                                                                                                                                                | 131,596          |           |
| Amortization of loss on refunding                                                                                                                                                                                                                                                                                                               | <u>(353,397)</u> | (228,408) |

|                                                                                                                                                                                                                                                                                                                                   |  |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|
| Internal Service Funds are used by management to charge the costs of fleet management, central services, management information systems, facility rental and maintenance, and self-insurance costs to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. |  | 3,849,470 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------|

|                                                                                                                                                                                     |                  |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. |                  |           |
| Compensated absences                                                                                                                                                                | 593,053          |           |
| Interest expense accrual                                                                                                                                                            | 33,612           |           |
| Net OPEB obligation                                                                                                                                                                 | (262,223)        |           |
| Contingent loan guarantee obligation                                                                                                                                                | <u>2,830,722</u> | 3,195,164 |

|                                                             |  |                          |
|-------------------------------------------------------------|--|--------------------------|
| Change in net position of governmental activities (page 23) |  | <u><u>23,832,859</u></u> |
|-------------------------------------------------------------|--|--------------------------|

The accompanying notes are an integral part of the financial statements

**CITY OF KENT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended December 31, 2014**

|                                                                                               | <b>2014 Budget</b>   |                      |                      |                       |
|-----------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|-----------------------|
|                                                                                               | <b>Original</b>      | <b>Final</b>         | <b>Actual</b>        | <b>Variance</b>       |
| <b>REVENUES</b>                                                                               |                      |                      |                      |                       |
| Taxes:                                                                                        |                      |                      |                      |                       |
| Property                                                                                      | \$ 20,527,820        | 20,527,820           | 20,696,272           | \$ 168,452            |
| Sales and use                                                                                 | 15,412,060           | 15,412,060           | 17,761,585           | 2,349,525             |
| Utility                                                                                       | 17,754,886           | 17,754,886           | 17,775,687           | 20,801                |
| Business & occupation                                                                         | 300,000              | 300,000              | 303,600              | 3,600                 |
| Other                                                                                         | 1,057,905            | 1,057,905            | 1,106,821            | 48,916                |
| Licenses and permits:                                                                         |                      |                      |                      |                       |
| Building permits                                                                              | 2,429,377            | 2,645,908            | 3,074,546            | 428,638               |
| Other licenses and permits                                                                    | 2,557,675            | 2,557,675            | 2,744,069            | 186,394               |
| Intergovernmental revenue:                                                                    |                      |                      |                      |                       |
| Other grants and shared revenue                                                               | 7,195,329            | 7,223,929            | 7,515,935            | 292,006               |
| Charges for services:                                                                         |                      |                      |                      |                       |
| Park and recreation fees                                                                      | 1,199,321            | 1,199,321            | 1,664,221            | 464,900               |
| Other fees and charges                                                                        | 3,830,549            | 3,830,549            | 4,935,083            | 1,104,534             |
| Fines and forfeitures                                                                         | 1,552,429            | 1,552,429            | 1,284,798            | (267,631)             |
| Miscellaneous revenue:                                                                        |                      |                      |                      |                       |
| Interest income                                                                               | 103,383              | 103,383              | 156,060              | 52,677                |
| Other miscellaneous revenue                                                                   | 1,178,631            | 1,178,631            | 960,678              | (217,953)             |
| <b>TOTAL REVENUES</b>                                                                         | <b>75,099,365</b>    | <b>75,344,496</b>    | <b>79,979,355</b>    | <b>4,634,859</b>      |
| <b>EXPENDITURES</b>                                                                           |                      |                      |                      |                       |
| Current:                                                                                      |                      |                      |                      |                       |
| General government                                                                            | 7,679,644            | 7,729,644            | 7,075,723            | 653,921               |
| Judicial                                                                                      | 2,938,747            | 2,938,747            | 2,849,954            | 88,793                |
| Public safety                                                                                 | 35,001,410           | 35,238,945           | 34,580,876           | 658,069               |
| Community development                                                                         | 5,740,185            | 5,999,250            | 5,251,662            | 747,588               |
| Public works                                                                                  | 4,552,647            | 4,600,113            | 4,929,327            | (329,214)             |
| Leisure services                                                                              | 10,371,947           | 10,400,547           | 9,996,558            | 403,989               |
| Health and human services                                                                     | 4,931,665            | 4,964,001            | 4,737,954            | 226,047               |
| <b>TOTAL EXPENDITURES</b>                                                                     | <b>71,216,245</b>    | <b>71,871,247</b>    | <b>69,422,054</b>    | <b>2,449,193</b>      |
| <b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>                                               | <b>3,883,120</b>     | <b>3,473,249</b>     | <b>10,557,301</b>    | <b>7,084,052</b>      |
| <b>OTHER FINANCING SOURCES (USES)</b>                                                         |                      |                      |                      |                       |
| Transfers in                                                                                  | 1,006,524            | 1,006,524            | 931,217              | (75,307)              |
| Transfers out                                                                                 | (4,134,673)          | (6,340,473)          | (7,648,239)          | (1,307,766)           |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                                                   | <b>(3,128,149)</b>   | <b>(5,333,949)</b>   | <b>(6,717,022)</b>   | <b>(1,383,073)</b>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES<br/>OVER EXPENDITURES AND OTHER USES</b> | <b>754,971</b>       | <b>(1,860,700)</b>   | <b>3,840,279</b>     | <b>5,700,979</b>      |
| <b>FUND BALANCE, January 1</b>                                                                | <b>17,380,664</b>    | <b>17,380,664</b>    | <b>9,497,676</b>     | <b>(7,882,988)</b>    |
| Prior period correction                                                                       | -                    | -                    | (2,026,104)          | (2,026,104)           |
| <b>ADJUSTED FUND BALANCE, January 1</b>                                                       | <b>17,380,664</b>    | <b>17,380,664</b>    | <b>7,471,572</b>     | <b>(9,909,092)</b>    |
| <b>FUND BALANCE, December 31</b>                                                              | <b>\$ 18,135,635</b> | <b>\$ 15,519,964</b> | <b>\$ 11,311,851</b> | <b>\$ (4,208,113)</b> |

Note: This budgetary statement represents the true General Fund. Certain other funds are combined with the General Fund for financial reporting purposes (see Note 1.d). Separate budgetary schedules are provided for those other funds,

The accompanying notes are an integral part of the financial statements

CITY OF KENT  
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Year Ended December 31, 2014

|                                                                                           | 2014 Budget           |                       |                       |                     |
|-------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
|                                                                                           | Original              | Final                 | Actual                | Variance            |
| <b>REVENUES</b>                                                                           |                       |                       |                       |                     |
| Taxes:                                                                                    |                       |                       |                       |                     |
| Sales and use                                                                             | \$ 4,874,950          | \$ 4,874,950          | \$ 5,323,729          | \$ 448,779          |
| Utility                                                                                   | 1,218,674             | 1,218,674             | 1,243,121             | 24,447              |
| Business & occupation                                                                     | -                     | -                     | 1,279,740             | 1,279,740           |
| Real estate excise tax                                                                    | 3,097,638             | 3,097,638             | 3,184,596             | 86,958              |
| Miscellaneous revenue:                                                                    |                       |                       |                       |                     |
| Interest income                                                                           | 3,978                 | 3,978                 | 1,617                 | (2,361)             |
| <b>TOTAL REVENUES</b>                                                                     | <u>9,195,240</u>      | <u>9,195,240</u>      | <u>11,032,803</u>     | <u>1,837,563</u>    |
| <b>EXPENDITURES</b>                                                                       |                       |                       |                       |                     |
| General government                                                                        | -                     | 5,800                 | 42,149                | 36,349              |
| Leisure services                                                                          | 2,400,000             | 2,400,000             | 2,729,824             | 329,824             |
| <b>TOTAL EXPENDITURES</b>                                                                 | <u>2,400,000</u>      | <u>2,405,800</u>      | <u>2,771,973</u>      | <u>366,173</u>      |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>                                  | 6,795,240             | 6,789,440             | 8,260,830             | 1,471,390           |
| <b>OTHER FINANCING SOURCES (USES)</b>                                                     |                       |                       |                       |                     |
| Sale of capital assets                                                                    | 3,500,000             | 3,500,000             | 2,314,228             | (1,185,772)         |
| Transfers in                                                                              | 2,259,600             | 2,265,400             | 2,766,676             | 501,276             |
| Transfer Out                                                                              | (8,165,195)           | (10,504,834)          | (8,925,896)           | 1,578,938           |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                                               | <u>(2,405,595)</u>    | <u>(4,739,434)</u>    | <u>(3,844,992)</u>    | <u>894,442</u>      |
| <b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b> | 4,389,645             | 2,050,006             | 4,415,838             | 2,365,832           |
| <b>FUND BALANCES, January 1</b>                                                           | (7,426,649)           | (7,426,649)           | (7,422,379)           | 4,270               |
| <b>FUND BALANCES, December 31</b>                                                         | <u>\$ (3,037,004)</u> | <u>\$ (5,376,643)</u> | <u>\$ (3,006,541)</u> | <u>\$ 1,475,660</u> |

Note: Budgeted transfers of \$300,000 between business units with the fund have been eliminated for financial reporting purposes.

The accompanying notes are an integral part of the financial statements

CITY OF KENT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 December 31, 2014

|                                                                  | Business-type Activities - Enterprise Funds |                       |                      |
|------------------------------------------------------------------|---------------------------------------------|-----------------------|----------------------|
|                                                                  | Water<br>Fund                               | Sewerage<br>Fund      | Golf<br>Complex Fund |
| <b>ASSETS</b>                                                    |                                             |                       |                      |
| <b>Current Assets:</b>                                           |                                             |                       |                      |
| Cash and cash equivalents                                        | \$ 16,445,371                               | \$ 10,702,086         | \$ 321,399           |
| Cash with fiscal agent                                           | 73,264                                      | -                     | -                    |
| Investments, at fair value                                       | 178                                         | 489                   | -                    |
| Restricted cash, cash equivalents, & investments:                |                                             |                       |                      |
| For bond redemption:                                             |                                             |                       |                      |
| Cash and cash equivalents                                        | 124,143                                     | 56,256                | -                    |
| Receivables (net of allowances for<br>estimated uncollectibles): |                                             |                       |                      |
| Taxes                                                            | -                                           | -                     | -                    |
| Accounts                                                         | 1,592,896                                   | 11,864,961            | 55,282               |
| Notes                                                            | 2,610,416                                   | 2,610,416             | -                    |
| Accrued interest                                                 | 1                                           | 2                     | -                    |
| Interfund loan receivable                                        | 4,424,536                                   | 381,990               | -                    |
| Inventory, at cost                                               | 340,768                                     | 35,961                | 156,363              |
| Prepaid expenses                                                 | 330                                         | 571                   | -                    |
| Total Current Assets                                             | 25,611,903                                  | 25,652,732            | 533,044              |
| <b>Noncurrent Assets:</b>                                        |                                             |                       |                      |
| Restricted cash, cash equivalents, and investments:              |                                             |                       |                      |
| For bond reserve:                                                |                                             |                       |                      |
| Cash and cash equivalents                                        | 1,063,072                                   | 1,063,072             | -                    |
| Interfund loan receivable - non-current portion                  | 598,608                                     | 920,970               | -                    |
| Property, plant and equipment                                    |                                             |                       |                      |
| Land                                                             | 1,994,193                                   | 4,031,815             | 5,342,508            |
| Buildings                                                        | 2,151,264                                   | 75,522                | 2,954,818            |
| Site Improvements                                                | 84,574,526                                  | 173,964,302           | 4,540,222            |
| Equipment                                                        | 1,970,342                                   | 1,619,789             | 585,792              |
| Less: Accumulated Depreciation                                   | (38,662,347)                                | (65,236,280)          | (6,517,432)          |
| Construction In Progress                                         | 92,018,504                                  | 77,322,924            | -                    |
| Total noncurrent assets                                          | 145,708,162                                 | 193,762,114           | 6,905,908            |
| <b>TOTAL ASSETS</b>                                              | <b>\$ 171,320,065</b>                       | <b>\$ 219,414,846</b> | <b>\$ 7,438,952</b>  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                            |                                             |                       |                      |
| Deferred loss on refunding                                       | -                                           | 131,683               | -                    |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                      | <b>\$ -</b>                                 | <b>\$ 131,683</b>     | <b>\$ -</b>          |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>                        | <b>\$ 171,320,065</b>                       | <b>\$ 219,546,529</b> | <b>\$ 7,438,952</b>  |

The accompanying notes are an integral part of the financial statements

| <u>Business-type Activities</u><br><u>Enterprise Funds</u> |                           | <u>Governmental Activities</u> |                          |
|------------------------------------------------------------|---------------------------|--------------------------------|--------------------------|
| <u>Totals</u>                                              |                           | <u>Internal Service Funds</u>  |                          |
| \$                                                         | 27,468,856                | \$                             | 19,397,680               |
|                                                            | 73,264                    |                                | -                        |
|                                                            | 667                       |                                | 254,874                  |
|                                                            | 180,399                   |                                | -                        |
|                                                            | -                         |                                | 121,836                  |
|                                                            | 13,513,139                |                                | 86,336                   |
|                                                            | 5,220,832                 |                                | 2,339,411                |
|                                                            | 3                         |                                | 51                       |
|                                                            | 4,806,526                 |                                | 3,000,000                |
|                                                            | 533,092                   |                                | 107,136                  |
|                                                            | 901                       |                                | 740,338                  |
|                                                            | <u>51,797,679</u>         |                                | <u>26,047,662</u>        |
|                                                            | 2,126,144                 |                                | -                        |
|                                                            | 1,519,578                 |                                | -                        |
|                                                            | 11,368,516                |                                | -                        |
|                                                            | 5,181,604                 |                                | 1,008,268                |
|                                                            | 263,079,050               |                                | 361,952                  |
|                                                            | 4,175,923                 |                                | 20,811,913               |
|                                                            | (110,416,059)             |                                | (18,525,410)             |
|                                                            | <u>169,341,428</u>        |                                | <u>1,662,026</u>         |
|                                                            | 346,376,184               |                                | 5,318,749                |
| \$                                                         | <u><u>398,173,863</u></u> | \$                             | <u><u>31,366,411</u></u> |
|                                                            | <u>131,683</u>            |                                | <u>-</u>                 |
| \$                                                         | <u>131,683</u>            | \$                             | <u>-</u>                 |
| \$                                                         | <u><u>398,305,546</u></u> | \$                             | <u><u>31,366,411</u></u> |

Continued

The accompanying notes are an integral part of the financial statements

CITY OF KENT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 December 31, 2014

|                                                        | Business-type Activities - Enterprise Funds |                |                   |
|--------------------------------------------------------|---------------------------------------------|----------------|-------------------|
|                                                        | Water Fund                                  | Sewerage Fund  | Golf Complex Fund |
| <b>LIABILITIES AND FUND EQUITY</b>                     |                                             |                |                   |
| <b>Current Liabilities:</b>                            |                                             |                |                   |
| Vouchers payable                                       | \$ 124,275                                  | \$ 932,277     | \$ 8,670          |
| Accounts/payroll payable                               | 269,837                                     | 681,279        | 82,213            |
| Incurred but not reported claims payable               | -                                           | -              | -                 |
| Interfund loans payable                                | -                                           | -              | 3,000,000         |
| Accrued interest payable                               | 124,143                                     | 56,256         | -                 |
| Compensated absences payable - current portion         | 100,419                                     | 116,564        | 42,952            |
| General obligation bonds payable - current portion     | -                                           | 513,615        | -                 |
| Notes payable - current portion                        | 1,564,028                                   | 75,000         | -                 |
| Revenue bonds payable - current portion                | 507,500                                     | 507,500        | -                 |
| Deposits and unearned revenue                          | 19,253                                      | 41,184         | 252,541           |
| Total Current Liabilities                              | 2,709,455                                   | 2,923,675      | 3,386,376         |
| <b>Noncurrent Liabilities:</b>                         |                                             |                |                   |
| Compensated absences payable- non-current portion      | 49,345                                      | 64,400         | 39,312            |
| Notes payable - non-current portion                    | 31,665,416                                  | 675,000        | -                 |
| General obligation bonds payable - non-current portion | -                                           | 2,424,030      | -                 |
| Plus: unamortized premium                              | -                                           | 202,807        | -                 |
| Revenue bonds payable - non-current portion            | 9,587,500                                   | 9,587,500      | -                 |
| Plus: unamortized premium                              | 121,586                                     | 121,586        | -                 |
| Total noncurrent liabilities                           | 41,423,847                                  | 13,075,323     | 39,312            |
| <b>TOTAL LIABILITIES</b>                               | \$ 44,133,302                               | \$ 15,998,998  | \$ 3,425,688      |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>          | \$ 44,133,302                               | \$ 15,998,998  | \$ 3,425,688      |
| <b>NET POSITION</b>                                    |                                             |                |                   |
| Net investment in capital assets                       | 102,446,097                                 | 178,515,556    | 6,905,908         |
| Restricted for debt service                            | 555,572                                     | 555,572        | -                 |
| Unrestricted                                           | 24,185,094                                  | 24,476,403     | (2,892,644)       |
| <b>TOTAL NET POSITION</b>                              | \$ 127,186,763                              | \$ 203,547,531 | \$ 4,013,264      |

The accompanying notes are an integral part of the financial statements

| <u>Business-type Activities</u><br><u>Enterprise Funds</u> |                    | <u>Governmental Activities</u> |                   |
|------------------------------------------------------------|--------------------|--------------------------------|-------------------|
| <u>Totals</u>                                              |                    | <u>Internal Service Funds</u>  |                   |
| \$                                                         | 1,065,222          | \$                             | 682,380           |
|                                                            | 1,033,329          |                                | 459,939           |
|                                                            | -                  |                                | 4,195,026         |
|                                                            | 3,000,000          |                                | -                 |
|                                                            | 180,399            |                                | -                 |
|                                                            | 259,935            |                                | 174,440           |
|                                                            | 513,615            |                                | -                 |
|                                                            | 1,639,028          |                                | -                 |
|                                                            | 1,015,000          |                                | -                 |
|                                                            | 312,978            |                                | 1,250             |
|                                                            | <u>9,019,506</u>   |                                | <u>5,513,035</u>  |
|                                                            | 153,057            |                                | 258,584           |
|                                                            | 32,340,416         |                                | -                 |
|                                                            | 2,424,030          |                                | -                 |
|                                                            | 202,807            |                                | -                 |
|                                                            | 19,175,000         |                                | -                 |
|                                                            | 243,172            |                                | -                 |
|                                                            | <u>54,538,482</u>  |                                | <u>258,584</u>    |
| \$                                                         | <u>63,557,988</u>  | \$                             | <u>5,771,619</u>  |
| \$                                                         | <u>63,557,988</u>  | \$                             | <u>5,771,619</u>  |
|                                                            | 287,867,561        |                                | 5,318,749         |
|                                                            | 1,111,144          |                                | -                 |
|                                                            | 45,768,853         |                                | 20,276,043        |
| \$                                                         | <u>334,747,558</u> | \$                             | <u>25,594,792</u> |

Concluded

The accompanying notes are an integral part of the financial statements

**CITY OF KENT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2014**

|                                                                       | <b>Business-type Activities - Enterprise Funds</b> |                             |                         |
|-----------------------------------------------------------------------|----------------------------------------------------|-----------------------------|-------------------------|
|                                                                       | <b>Water<br/>Utility</b>                           | <b>Sewerage<br/>Utility</b> | <b>Golf<br/>Complex</b> |
| <b>OPERATING REVENUES</b>                                             |                                                    |                             |                         |
| Sales                                                                 | \$ 17,907,534                                      | \$ -                        | \$ 420,095              |
| Charges for services                                                  | 501,487                                            | 44,961,341                  | 1,823,948               |
| Contributions                                                         | -                                                  | -                           | -                       |
| Rental and lease income                                               | -                                                  | -                           | 240,694                 |
| Other operating revenue                                               | 7,141                                              | 8,358                       | 611                     |
| <b>TOTAL OPERATING REVENUES</b>                                       | <b>18,416,162</b>                                  | <b>44,969,699</b>           | <b>2,485,348</b>        |
| <b>OPERATING EXPENSES</b>                                             |                                                    |                             |                         |
| Salaries and wages                                                    | 1,900,191                                          | 2,690,121                   | 966,493                 |
| Benefits                                                              | 880,734                                            | 1,090,956                   | 376,529                 |
| Supplies                                                              | 530,365                                            | 368,757                     | 496,882                 |
| Services and charges                                                  | 7,366,028                                          | 29,119,595                  | 833,918                 |
| Depreciation                                                          | 1,810,788                                          | 4,108,145                   | 195,714                 |
| <b>TOTAL OPERATING EXPENSES</b>                                       | <b>12,488,106</b>                                  | <b>37,377,574</b>           | <b>2,869,536</b>        |
| <b>OPERATING INCOME (LOSS)</b>                                        | <b>5,928,056</b>                                   | <b>7,592,125</b>            | <b>(384,188)</b>        |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                              |                                                    |                             |                         |
| Interest income                                                       | 67,630                                             | 57,076                      | 68                      |
| Unrealized net gain/(loss) in fair value of investments               | 1                                                  | 2                           | -                       |
| Miscellaneous non-operating revenues                                  | 128,014                                            | 45,024                      | 3,946                   |
| Interest expense                                                      | (582,049)                                          | (574,123)                   | (2,629)                 |
| Gain (loss) on disposal of capital assets                             | -                                                  | -                           | -                       |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>                        | <b>(386,404)</b>                                   | <b>(472,021)</b>            | <b>1,385</b>            |
| <b>INCOME (LOSS) BEFORE CONTRIBUTIONS, TRANSFERS AND SPECIAL ITEM</b> | <b>5,541,652</b>                                   | <b>7,120,104</b>            | <b>(382,803)</b>        |
| Capital contributions                                                 | 1,707,303                                          | 14,085,176                  | -                       |
| Transfers in                                                          | -                                                  | 161,653                     | -                       |
| Transfers out                                                         | (71,920)                                           | (73,004)                    | -                       |
| <b>INCREASE (DECREASE) IN NET POSITION</b>                            | <b>7,177,035</b>                                   | <b>21,293,929</b>           | <b>(382,803)</b>        |
| <b>NET POSITION, January 1</b>                                        | <b>119,211,584</b>                                 | <b>181,025,642</b>          | <b>4,396,067</b>        |
| Prior period adjustment                                               | 798,144                                            | 1,227,960                   | -                       |
| <b>ADJUSTED NET POSITION, January 1</b>                               | <b>120,009,728</b>                                 | <b>182,253,602</b>          | <b>4,396,067</b>        |
| <b>NET POSITION, December 31</b>                                      | <b>\$ 127,186,763</b>                              | <b>\$ 203,547,531</b>       | <b>\$ 4,013,264</b>     |

The accompanying notes are an integral part of the financial statements

| <b>Business-type Activities<br/>Enterprise Funds</b> |                           | <b>Governmental Activities</b> |                          |
|------------------------------------------------------|---------------------------|--------------------------------|--------------------------|
| <b>Totals</b>                                        |                           | <b>Internal Service Funds</b>  |                          |
| \$                                                   | 18,327,629                | \$                             | 1,174,703                |
|                                                      | 47,286,776                |                                | 13,221,349               |
|                                                      | -                         |                                | 12,642,942               |
|                                                      | 240,694                   |                                | -                        |
|                                                      | 16,110                    |                                | 876,479                  |
|                                                      | <u>65,871,209</u>         |                                | <u>27,915,473</u>        |
|                                                      | 5,556,805                 |                                | 4,640,656                |
|                                                      | 2,348,219                 |                                | 1,769,467                |
|                                                      | 1,396,004                 |                                | 1,924,916                |
|                                                      | 37,319,541                |                                | 15,733,562               |
|                                                      | 6,114,647                 |                                | 602,322                  |
|                                                      | <u>52,735,216</u>         |                                | <u>24,670,923</u>        |
|                                                      | <u>13,135,993</u>         |                                | <u>3,244,550</u>         |
|                                                      | 124,774                   |                                | 59,594                   |
|                                                      | 3                         |                                | -                        |
|                                                      | 176,984                   |                                | 1,416,596                |
|                                                      | (1,158,801)               |                                | (523)                    |
|                                                      | -                         |                                | 4,498                    |
|                                                      | <u>(857,040)</u>          |                                | <u>1,480,165</u>         |
|                                                      | <u>12,278,953</u>         |                                | <u>4,724,715</u>         |
|                                                      | 15,792,479                |                                | -                        |
|                                                      | 161,653                   |                                | 57,882                   |
|                                                      | (144,924)                 |                                | (1,346,589)              |
|                                                      | <u>28,088,161</u>         |                                | <u>3,436,008</u>         |
|                                                      | 304,633,293               |                                | 22,158,784               |
|                                                      | 2,026,104                 |                                | -                        |
|                                                      | <u>306,659,397</u>        |                                | <u>22,158,784</u>        |
| \$                                                   | <u><u>334,747,558</u></u> | \$                             | <u><u>25,594,792</u></u> |

The accompanying notes are an integral part of the financial statements

**CITY OF KENT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2014**

|                                                                           | <b>Business-type Activities - Enterprise Funds</b> |                      |
|---------------------------------------------------------------------------|----------------------------------------------------|----------------------|
|                                                                           | <b>Water</b>                                       | <b>Sewerage</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                                                    |                      |
| Cash received from customers                                              | \$ 18,796,906                                      | \$ 38,988,969        |
| Cash received from other funds for services                               | -                                                  | -                    |
| Cash payments to employees                                                | (2,802,921)                                        | (3,612,589)          |
| Cash payments to suppliers                                                | (10,385,054)                                       | (29,327,010)         |
| Other cash received                                                       | 7,141                                              | 8,358                |
| Net cash provided by operating activities                                 | 5,616,072                                          | 6,057,728            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                    |                                                    |                      |
| Interfund loan issued for noncapital purposes                             | (798,144)                                          | (1,302,960)          |
| Interfund loan payment for noncapital purposes                            | -                                                  | -                    |
| Operating grants/non-operating revenue received                           | 128,014                                            | 45,024               |
| Prior period adjustment                                                   | 798,144                                            | 1,227,960            |
| Transfers in                                                              | -                                                  | 161,653              |
| Transfers out                                                             | (71,920)                                           | (73,004)             |
| Net cash provided by (used for) noncapital financing                      | 56,094                                             | 58,673               |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>           |                                                    |                      |
| Proceeds from bond sales                                                  | -                                                  | 3,783,728            |
| Proceeds from capital asset removal                                       | -                                                  | -                    |
| Acquisition and construction of capital assets                            | (8,241,598)                                        | (17,182,972)         |
| Interfund loan for capital outlays                                        | 5,675,000                                          | 774,808              |
| Defease refunded bonds                                                    | -                                                  | (3,783,728)          |
| Principal paid on bonds and equipment contracts                           | (2,016,529)                                        | (1,290,281)          |
| Interest paid on bonds and equipment contracts                            | (619,496)                                          | (542,338)            |
| Transfers in                                                              | -                                                  | -                    |
| Transfers out                                                             | -                                                  | -                    |
| Capital contributed by subdividers, capital grants, local impr. districts | 1,488,631                                          | 13,886,880           |
| Net cash (used for) capital & related financing                           | (3,713,992)                                        | (4,353,903)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                                                    |                      |
| Purchase of investment securities                                         | (28,050,000)                                       | (35,070,000)         |
| Proceeds from sale and maturities of investments                          | 40,895,116                                         | 42,935,320           |
| Interest and dividends on investments                                     | 67,630                                             | 57,077               |
| Net cash provided by (used for) investing activities                      | 12,912,746                                         | 7,922,397            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>               | 14,870,920                                         | 9,684,895            |
| <b>CASH AND CASH EQUIVALENTS, January 1</b>                               | 2,834,930                                          | 2,136,519            |
| <b>CASH AND CASH EQUIVALENTS, December 31</b>                             | <u>\$ 17,705,850</u>                               | <u>\$ 11,821,414</u> |
| <b>CASH AND EQUITY IN POOLED INVESTMENTS AT DECEMBER 31 CONSISTS OF:</b>  |                                                    |                      |
| Current Assets: Cash and cash equivalents                                 | \$ 16,445,371                                      | \$ 10,702,086        |
| Current Assets: Cash with fiscal agent                                    | 73,264                                             | -                    |
| Restricted for Bond Redemption: Cash and cash equivalents                 | 124,143                                            | 56,256               |
| Restricted for Bond Reserve: Cash and cash equivalents                    | 1,063,072                                          | 1,063,072            |
|                                                                           | <u>\$ 17,705,850</u>                               | <u>\$ 11,821,414</u> |

The accompanying notes are an integral part of the financial statements

| Business-type Activities - Enterprise Funds |                      | Governmental Activities |  |
|---------------------------------------------|----------------------|-------------------------|--|
| Golf Complex                                | Totals               | Internal Service Funds  |  |
| \$ 2,502,525                                | \$ 60,288,400        | \$ 14,412,076           |  |
| -                                           | -                    | 13,339,869              |  |
| (1,339,444)                                 | (7,754,954)          | (6,390,064)             |  |
| (1,349,224)                                 | (41,061,288)         | (18,329,419)            |  |
| 611                                         | 16,110               | 876,479                 |  |
| (185,532)                                   | 11,488,268           | 3,908,941               |  |
| 3,000,000                                   | 898,896              | (3,000,000)             |  |
| (2,600,000)                                 | (2,600,000)          | 1,500,000               |  |
| 3,946                                       | 176,984              | 1,416,596               |  |
| -                                           | 2,026,104            | -                       |  |
| -                                           | 161,653              | -                       |  |
| -                                           | (144,924)            | -                       |  |
| 403,946                                     | 518,713              | (83,404)                |  |
| -                                           | 3,783,728            | -                       |  |
| -                                           | -                    | 62,793                  |  |
| (16,589)                                    | (25,441,159)         | (1,411,228)             |  |
| -                                           | 6,449,808            | -                       |  |
| -                                           | (3,783,728)          | -                       |  |
| -                                           | (3,306,810)          | (31,087)                |  |
| (2,629)                                     | (1,164,463)          | (628)                   |  |
| -                                           | -                    | 57,882                  |  |
| -                                           | -                    | (1,346,589)             |  |
| -                                           | 15,375,511           | -                       |  |
| (19,218)                                    | (8,087,113)          | (2,668,857)             |  |
| (340,000)                                   | (63,460,000)         | (18,725,000)            |  |
| 345,000                                     | 84,175,436           | 34,085,000              |  |
| 68                                          | 124,775              | 59,594                  |  |
| 5,068                                       | 20,840,211           | 15,419,594              |  |
| 204,264                                     | 24,760,079           | 16,576,274              |  |
| 117,135                                     | 5,088,584            | 2,821,406               |  |
| <u>\$ 321,399</u>                           | <u>\$ 29,848,663</u> | <u>\$ 19,397,680</u>    |  |
| \$ 321,399                                  | \$ 27,468,856        | \$ 19,397,680           |  |
| -                                           | 73,264               | -                       |  |
| -                                           | 180,399              | -                       |  |
| -                                           | 2,126,144            | -                       |  |
| <u>\$ 321,399</u>                           | <u>\$ 29,848,663</u> | <u>\$ 19,397,680</u>    |  |

Continued

The accompanying notes are an integral part of the financial statements

**CITY OF KENT  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2014**

**Business-type Activities - Enterprise Funds**

|                                                                                         | <b><u>Water</u></b>        | <b><u>Sewerage</u></b>     |
|-----------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                            |                            |
| Operating income (loss)                                                                 | \$ 5,928,056               | \$ 7,592,125               |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                            |                            |
| Depreciation expense                                                                    | 1,810,788                  | 4,108,145                  |
| Change in assets and liabilities:                                                       |                            |                            |
| (Increase) Decrease in accounts receivable                                              | 50,702                     | (6,290,136)                |
| (Increase) Decrease in notes receivable                                                 | 410,973                    | 383,717                    |
| (Increase) Decrease in inventory                                                        | (17,694)                   | 11,898                     |
| (Increase) Decrease in prepaid expenses                                                 | (130)                      | 26                         |
| Increase (Decrease) in vouchers payable                                                 | (2,462,523)                | 469,198                    |
| Increase (Decrease) in accounts/payroll payable                                         | 2,521                      | (115,523)                  |
| Increase (Decrease) in incurred but not reported claims payable                         | -                          | -                          |
| Increase (Decrease) in deposits and deferred revenues                                   | (73,790)                   | (65,953)                   |
| Increase (Decrease) in compensated absences                                             | (32,831)                   | (35,769)                   |
| Total Adjustments                                                                       | (311,984)                  | (1,534,397)                |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                        | <b>\$ <u>5,616,072</u></b> | <b>\$ <u>6,057,728</u></b> |
| <b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>          |                            |                            |
| Capital assets contributed                                                              | \$ 218,672                 | \$ 198,296                 |
| (Decrease) in fair value of investments                                                 | 1                          | 2                          |

The accompanying notes are an integral part of the financial statements

| Business-type Activities - Enterprise Funds |           |                   | Governmental Activities |                  |
|---------------------------------------------|-----------|-------------------|-------------------------|------------------|
| Golf Complex                                |           | Totals            | Internal Service Funds  |                  |
| \$ (384,188)                                | \$        | 13,135,993        | \$                      | 3,244,550        |
| 195,714                                     |           | 6,114,647         |                         | 602,322          |
| 8,479                                       |           | (6,230,955)       |                         | 712,951          |
| -                                           |           | 794,690           |                         | -                |
| (21,893)                                    |           | (27,689)          |                         | 3,466            |
| -                                           |           | (104)             |                         | (131,109)        |
| 1,697                                       |           | (1,991,628)       |                         | (110,694)        |
| 4,252                                       |           | (108,750)         |                         | (35,972)         |
| -                                           |           | -                 |                         | (390,083)        |
| 9,309                                       |           | (130,434)         |                         | -                |
| 1,098                                       |           | (67,502)          |                         | 13,510           |
| 198,656                                     |           | (1,647,725)       |                         | 664,391          |
| <u>\$ (185,532)</u>                         | <u>\$</u> | <u>11,488,268</u> | <u>\$</u>               | <u>3,908,941</u> |
| \$ -                                        | \$        | 416,968           | \$                      | -                |
| -                                           |           | 3                 |                         | -                |

The accompanying notes are an integral part of the financial statements

Concluded

**CITY OF KENT  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
December 31, 2014**

|                                             | <b>Firemen's<br/>Relief &amp;<br/>Pension Fund</b> | <b>Agency<br/>Funds</b> |
|---------------------------------------------|----------------------------------------------------|-------------------------|
| <hr/>                                       |                                                    |                         |
| <b>ASSETS</b>                               |                                                    |                         |
| Cash and cash equivalents                   | \$ 1,852,659                                       | \$ 1,470,705            |
| Investments, at fair value                  |                                                    |                         |
| Government Agencies                         | 889,972                                            | -                       |
| Due from other governments                  | -                                                  | 4,335                   |
| Net pension asset                           | 515,815                                            |                         |
|                                             | <hr/>                                              | <hr/>                   |
| <b>TOTAL ASSETS</b>                         | <b>3,258,446</b>                                   | <b>1,475,040</b>        |
| <b>LIABILITIES</b>                          |                                                    |                         |
| Accounts/payroll payable                    | 5,937                                              | 1,175,361               |
| Deposits and unearned revenue               | -                                                  | 299,679                 |
|                                             | <hr/>                                              | <hr/>                   |
| Total Liabilities                           | 5,937                                              | 1,475,040               |
| <b>NET POSITION RESTRICTED FOR PENSIONS</b> | <b>\$ 3,252,509</b>                                | <b>\$</b>               |
|                                             | <hr/>                                              | <hr/>                   |

The accompanying notes are an integral part of the financial statements

**CITY OF KENT  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended December 31, 2014**

|                                                                 | <b>Firemen's<br/>Relief &amp;<br/>Pension Fund</b> |
|-----------------------------------------------------------------|----------------------------------------------------|
| <b>ADDITIONS</b>                                                |                                                    |
| Contributions:                                                  |                                                    |
| State insurance fees                                            | \$ 178,899                                         |
| Investment earnings:                                            |                                                    |
| Interest                                                        | 54,674                                             |
| Unrealized net gain/(loss) in fair value of investments         | 179                                                |
| <b>TOTAL ADDITIONS</b>                                          | <u>233,752</u>                                     |
| <b>DEDUCTIONS</b>                                               |                                                    |
| Benefits                                                        | 514,104                                            |
| Administrative Expense                                          | 8,325                                              |
| <b>TOTAL DEDUCTIONS</b>                                         | <u>522,429</u>                                     |
| <b>CHANGE IN NET POSITION</b>                                   | (288,677)                                          |
| <b>NET POSITION RESTRICTED FOR PENSIONS, January 1</b>          | 2,880,593                                          |
| Prior period adjustment (Note 20)                               | 660,593                                            |
| <b>NET POSITION RESTRICTED FOR PENSIONS, January 1 restated</b> | 3,541,186                                          |
| <b>NET POSITION RESTRICTED FOR PENSIONS, December 31</b>        | <u><u>\$ 3,252,509</u></u>                         |

The accompanying notes are an integral part of the financial statements

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements of the City of Kent have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Effective for fiscal year 2014, the City implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 67 – *Financial Reporting for Pension Plans*. This statement replaces earlier guidance on accounting and financial reporting for the activities of pension plans that are administered through trusts. The statement applies to the Firemen's Relief and Pension Trust Fund of the City.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires governments that extend a nonexchange financial guarantee to recognize a liability when qualitative and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

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

**a. REPORTING ENTITY**

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

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

JOINTLY GOVERNED ORGANIZATIONS – On April 27, 2010, the passage of Proposition No. 1 authorized the merger of the Kent Fire Department and King County Fire District 37 into one organization, the Kent Regional Fire authority. The new organization, effective officially on July 1, 2010, retained the name of Kent Fire Department. The RFA is not financially accountable to the City of Kent. The City of Kent does not have an ongoing financial interest in the RFA and the RFA is not

financially dependent upon the City of Kent. The RFA imposes its own property tax levy and fire benefit charge. The RFA's board is comprised of six voting members and two non-voting members. Three of the voting members are from the current Kent City Council: Dennis Higgins, Bill Boyce and Les Thomas. In addition, the board has three members from Fire District 37 and one non-voting member from the City of Covington and one non-voting member from the City of SeaTac. Through an interlocal agreement, the RFA provides emergency management, fire prevention and fire inspection services for the City and the City provides some staff services for the RFA. Provided services are billed to the other agency.

b. **BASIC FINANCIAL STATEMENTS**

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report on all non-fiduciary activities of the City and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primary government is reported separately from its component unit. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables, as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the changes in the aggregate financial position resulting from the activities of the fiscal period.

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

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

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions, programs and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, program or segment. Interest on governmental activities long-term debt is not allocated to the various functions or programs. Program revenues include: 1) charges to customers or users (user charges) who purchase, use or directly benefit from goods, services or privileges provided by a particular function,

program or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, program or segment. Taxes, investment income and other revenues that are not directly identifiable with a function, program or segment are included as general revenues. Internally dedicated resources are also reported as general revenues. The general revenues support the net costs of the functions, programs or segments not covered by program revenues.

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

The internal service funds, which provide services to the other funds of the government, are presented in a single column in the proprietary fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements. Because the principal users of the internal service funds are the City's governmental activities, the assets, deferred outflows, liabilities and deferred inflows of the internal service funds are consolidated into the governmental activities column of the government-wide Statement of Net Position. The costs of the internal service funds are spread to the appropriate function or segment on the government-wide Statement of Activities and the revenues and expenses of the internal service funds are eliminated from the government-wide financial statements to avoid and doubling up effect of these revenues and expenses.

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

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

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

When applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No.33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, receivable and revenues are recognized when applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported

as advances or deferred inflows.

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

**GOVERNMENTAL FUNDS:** Governmental funds are used to account for the City's general government activities. The City reports the following major governmental funds:

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

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

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

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

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

**PROPRIETARY FUNDS:** Proprietary funds account for the activities of the City similar to those found in the private sector, where cost recovery and the determination of net income is useful for sound fiscal management. The focus of proprietary fund measurement is upon the determination of operating income, changes in net position, financial position and cash flows. Enterprise Funds are used to account for those operations that provide services to the general public for a fee. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

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

principle on going operation.

The City reports the following major proprietary funds, which are all of the enterprise funds of the City:

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

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

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

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds are used to account for the financing of specific services performed by designated organizations within the City for other organizations within the City. The internal service funds are presented as one column on the proprietary fund financial statements. Combining financial statements are also presented for the internal service funds, but are not part of the basic financial statements. The City's internal service funds are comprised of the Equipment Rental, Central Service, Facilities, and Insurance funds.

**Fiduciary Funds** - Fiduciary Funds are used to account for assets held by the City as trustee or agent for individuals, private organizations or other governmental units. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. The Fiduciary Funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Pension Trust Funds are used to account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. The City's pension trust fund, the Firemen's Relief & Pension Fund, accounts for pension benefits for former City firefighters.

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

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

d. **BUDGETARY INFORMATION**

**Budget Process**

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

City Council ordinance.

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

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

The individual funds within each fund type which are included in the City's annual operating budget and for which budgetary comparison statements or schedules are prepared are listed below.

General Fund, Special Revenue Funds: Street Fund, Lodging Tax Fund, Youth/Teen Fund, Criminal Justice Fund, Environmental Mitigation Fund, and Housing & Community Development Fund. Budgetary information is also provided for the Public Safety Retiree Fund, Operating Grants and Project Fund, and Events Center Operating Fund although these funds are combined into the General Fund for financial statement reporting.

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

The steps in the budget process are as follows:

- (1) The Chief Administrative Officer and Mayor submit a proposed biennial budget to the City Council. This budget is based on priorities established by the Council, cost estimates provided by the City departments and balanced with revenue estimates.
- (2) The City Council conducts public hearings on the proposed budget in September and October.
- (3) The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced biennial budget no later than December 31.
- (4) The final operating budget as adopted is published and distributed within the first three months of the following year. The adopted budget is made available to the public on the city's website.

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

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

Appropriation amounts shown on the accompanying financial statements reflect final budget values, including all adopted adjustments to original budget amounts. The table below does not include transfers.

| <b>Fund</b>                     | <b>Original Budget</b> | <b>Supplemental Appropriations</b> | <b>Final Budget</b>  |
|---------------------------------|------------------------|------------------------------------|----------------------|
| General Fund                    | \$ 71,216,245          | \$ 655,002                         | \$ 71,871,247        |
| Special Revenue Funds:          |                        |                                    |                      |
| Street                          | 2,393,514              | 213,280                            | 2,606,794            |
| Lodging Tax                     | 178,500                | -                                  | 178,500              |
| Youth/Teen Programs             | 42,000                 | -                                  | 42,000               |
| Criminal Justice                | 2,863,414              | 617,144                            | 3,480,558            |
| Environmental Mitigation        | -                      | 335,177                            | 335,177              |
| Housing & Community Development | 914,499                | 50,232                             | 964,731              |
| <b>Total</b>                    | <b>\$ 77,608,172</b>   | <b>\$ 1,870,835</b>                | <b>\$ 79,479,007</b> |

### Reconciliation of Budgetary Information to GAAP

For managerial purposes, the City of Kent treats the General Fund, Public Safety Retiree, Other Operating Grants and Projects, and Kent Events Center funds separately. However, the latter three funds do not meet the criteria of a special revenue fund as set forth in GASB Statement No. 54 and for reporting purposes are presented in combination with the General Fund in order to comply with GAAP. However, the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual on page 35 compares only the General Fund as adopted in the budget along with the related revenues and expenditures. It does not include the budget or actual data for the Public Safety Retiree, Other Operating Grants and Projects, or Kent Events Center Funds. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual are also presented for the Public Safety Retiree, Other Operating Grants and Projects, and Kent Events Center funds which may be found on pages 122-124. Below, you will find the combining of these funds with the General Fund for reporting purposes.

|                             | <b>General Fund</b> | <b>Public Safety Retiree</b> | <b>Operating Grants &amp; Projects</b> | <b>Kent Events Center Fund</b> | <b>Eliminations</b> | <b>Revised General Fund</b> |
|-----------------------------|---------------------|------------------------------|----------------------------------------|--------------------------------|---------------------|-----------------------------|
| <b>Revenues:</b>            |                     |                              |                                        |                                |                     |                             |
| Taxes                       | \$ 57,643,965       | -                            | -                                      | -                              | -                   | \$ 57,643,965               |
| Licenses & permits          | 5,818,615           | -                            | -                                      | -                              | -                   | 5,818,615                   |
| Other grants/shared revenue | 7,515,935           | -                            | -                                      | -                              | -                   | 7,515,935                   |
| Charges for service         | 6,599,304           | -                            | -                                      | -                              | -                   | 6,599,304                   |
| Fines and forfeitures       | 1,284,798           | -                            | -                                      | -                              | -                   | 1,284,798                   |
| Interest income             | 156,060             | 819                          | -                                      | -                              | -                   | 156,879                     |
| Contributions & donations   | 34,430              | 805,020                      | 14,000                                 | -                              | -                   | 853,450                     |
| Other miscellaneous revenue | 926,248             | -                            | -                                      | -                              | -                   | 926,248                     |
| <b>Total Revenues</b>       | <b>79,979,355</b>   | <b>805,839</b>               | <b>14,000</b>                          | <b>-</b>                       | <b>-</b>            | <b>80,799,194</b>           |

Continued on next page

|                                                                  | General Fund         | Public Safety Retiree | Operating Grants & Projects | Kent Events Center Fund | Eliminations | Revised General Fund |
|------------------------------------------------------------------|----------------------|-----------------------|-----------------------------|-------------------------|--------------|----------------------|
| <b>Expenditures:</b>                                             |                      |                       |                             |                         |              |                      |
| General Government                                               | 7,075,723            | -                     | 25,722                      | -                       | -            | 7,101,445            |
| Judicial                                                         | 2,849,954            | -                     | -                           | -                       | -            | 2,849,954            |
| Public Safety                                                    | 34,580,876           | 887,036               | -                           | -                       | -            | 35,467,912           |
| Community development                                            | 5,251,662            | -                     | -                           | -                       | -            | 5,251,662            |
| Public works                                                     | 4,929,327            | -                     | -                           | -                       | -            | 4,929,327            |
| Leisure services                                                 | 9,996,558            | -                     | 23,587                      | 972,047                 | -            | 10,992,192           |
| Health & human services                                          | 4,737,954            | -                     | 21,169                      | -                       | -            | 4,759,123            |
| Capital outlay                                                   | -                    | -                     | -                           | 8,000                   | -            | 8,000                |
| <b>Total Expenditures</b>                                        | <b>69,422,054</b>    | <b>887,036</b>        | <b>70,478</b>               | <b>980,047</b>          | <b>-</b>     | <b>71,359,615</b>    |
| <b>Excess (Deficiency) of Revenues over (under) Expenditures</b> | 10,557,301           | (81,197)              | (56,478)                    | (980,047)               | -            | 9,439,579            |
| <b>Other Financing Sources (uses)</b>                            |                      |                       |                             |                         |              |                      |
| Transfers in                                                     | 931,217              | 250,000               | 120,073                     | 3,456,124               | (3,826,197)  | 931,217              |
| Transfers out* (see below)                                       | (7,648,239)          | -                     | -                           | -                       | 3,826,197    | (3,822,042)          |
| <b>Total Other Financing Sources (Uses)</b>                      | <b>(6,717,022)</b>   | <b>250,000</b>        | <b>120,073</b>              | <b>3,456,124</b>        | <b>-</b>     | <b>(2,890,825)</b>   |
| <b>Net Change in Fund Balance</b>                                | <b>3,840,279</b>     | <b>168,803</b>        | <b>63,595</b>               | <b>2,476,077</b>        | <b>-</b>     | <b>6,548,754</b>     |
| <b>Fund Balance, January 1</b>                                   | <b>7,471,572</b>     | <b>862,223</b>        | <b>376,115</b>              | <b>(2,456,087)</b>      | <b>-</b>     | <b>6,253,823</b>     |
| <b>Fund Balance, December 31</b>                                 | <b>\$ 11,311,851</b> | <b>\$ 1,031,026</b>   | <b>\$ 439,710</b>           | <b>\$ 19,990</b>        | <b>\$ -</b>  | <b>\$ 12,802,577</b> |

\*Transfers Out reconciliation to General Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 35 is shown as follows:

|                                                   |                     |
|---------------------------------------------------|---------------------|
| Transfers Out per Budget                          | \$ 7,648,239        |
| Less Intrafund Transfer to: Public Safety Retiree | 250,000             |
| Other Operating Grants & Projects                 | 120,073             |
| Kent Events Center Fund                           | 3,456,124           |
|                                                   | <u>\$ 3,822,042</u> |

e. **ASSETS & DEFERED OUTFLOWS, LIABILITIES & DEFERRED INFLOWS, AND NET POSITION**

**(1) Cash and Cash Equivalents**

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

Interest earned on pooled cash and investments is prorated to the various funds. Interest earned on a specific fund's investments is credited to the fund holding the investment.

**(2) Investments** (refer to Note 4)

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

**(3) Receivables** (refer to Note 5)

Taxes receivable consists of property taxes (refer to Note 13), sales taxes, and City assessed business and occupation, utility, lodging, real-estate excise taxes and gambling taxes and

related interest and penalties. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Unearned assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited.

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

All receivables are shown on the financial statements net of an allowance for uncollectible accounts, if applicable.

**(4) Inventory and prepaid items**

Inventories carried in Proprietary Funds are valued under the first-in first-out method. A physical count is taken at year-end. Governmental Funds use the purchase method whereby inventory items are considered expenditures when purchased. The inventory recorded in governmental activities arises from the inclusion of the Internal Service Funds into governmental activities.

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

**(5) Deferred outflows**

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

**(6) Deferred inflows**

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

**(7) Compensated Absences** (also refer to Note 14)

Annual leave, based on a graduated scale of years of employment, is credited to each employee as it accrues. The maximum annual leave accrual for permanent employees is 240 hours. Upon employment termination, payment is made to the employee for the unused leave.

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

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

**(8) Refunded (Defeased) Bonds**

The government may, from time to time, choose to refinance (defease) outstanding debt to take advantage of lower interest rates. In a *current refunding*, the proceeds of the refunding debt are

applied immediately to pay off (redeem) the refunded debt. In other cases, the government may be prevented from redeeming debt prior to maturity or a contractually agreed upon call date. In an *advance refunding*, the proceeds of the refunding debt are placed in an irrevocable trust to make the future debt payments on the refunded debt. With a refunding, the refunded debt is removed from the government's books and the refunding debt is added.

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

f. **ENCUMBRANCES**

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

g. **INTERFUND TRANSACTIONS AND TRANSFERS** (also refer to Note 6)

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

(1) **Interfund Transactions**

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

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

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

(2) **Interfund Transfers**

Transfers are required where revenue is generated in one fund and expenditures are paid for in other funds. The majority of transfers occur with respect to capital projects where certain General and Special Revenue Fund revenues are transferred to finance various capital projects. Other operating transfers of a recurring nature are required to fund debt service. A summary of transfers by fund type is shown in Note 6.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note 6, *Interfund Balances and Transfers*.

h. **CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental and business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Infrastructure assets are reported on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

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

Property, Plant and Equipment for governmental activities is stated at historical cost, or market value at date received in the case of contributions. Purchase and construction of such assets are recorded as expenditures in the appropriate Governmental Fund and capitalized for government-wide reporting. Incomplete capital projects, including infrastructure, are capitalized as construction in progress at year end. Street related right of way purchases are recorded as land purchases at the time the projects are complete. Depreciation is recorded on the government-wide statements.

Property, Plant and Equipment in the Proprietary Funds is stated at cost, or in the case of contributions at estimated market value at the date of donation. Depreciation is recorded in the fund statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS****a. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION**

A reconciliation between the governmental fund balance sheet *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position is provided on page 29.

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

A reconciliation between the governmental fund statement of revenue, expenditures and changes in fund balance *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities is provided on page 33.

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

**4. DEPOSITS AND INVESTMENTS**

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

**DEPOSITS**

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

**INVESTMENTS**

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

As of December 31, 2014, the City had the following investments:

| Investment Type                             | Fair Value    | Investment Maturities (In Years) |           |      |
|---------------------------------------------|---------------|----------------------------------|-----------|------|
|                                             |               | <1                               | 1-5       | 6-10 |
| Cash Equivalents                            |               |                                  |           |      |
| State Treasurer's Investment Pool           | \$ 77,006,806 | \$ 77,006,806                    | \$ -      | \$ - |
| Investments                                 |               |                                  |           |      |
| Government Agencies (various)               | 890,639       | -                                | 890,639   | -    |
| Certificates of Deposit                     | 254,874       | 254,874                          | -         | -    |
| Total investments                           | 78,152,319    | 77,261,680                       | 890,639   | -    |
| Less cash equivalents & investments held by |               |                                  |           |      |
| Fiduciary Funds                             | (2,724,972)   | (1,835,000)                      | (889,972) | -    |
| Total Primary Government                    | \$ 75,427,347 | \$ 75,426,680                    | \$ 667    | \$ - |

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

#### **PRIMARY GOVERNMENT**

##### **From Statement of Net Position:**

|                                             |                      |
|---------------------------------------------|----------------------|
| Cash & cash equivalents                     | \$ 79,987,737        |
| Cash with fiscal agent/trustee              | 133,264              |
| Investments, at fair value                  | 255,541              |
| Restricted cash & cash equivalents          | 2,306,543            |
| <b>Total from Statement of Net Position</b> | <b>\$ 82,683,085</b> |

##### **Summary by Type:**

|                                    |                      |
|------------------------------------|----------------------|
| Cash on hand and in bank           | \$ 7,122,474         |
| State Pool (cash equivalents)      | 75,171,806           |
| Deposits with fiscal agent/trustee | 133,264              |
| Certificates of deposit            | 254,874              |
| Investments                        | 667                  |
| <b>Total by Type</b>               | <b>\$ 82,683,085</b> |

#### **COMPONENT UNIT**

##### **Special Events Center PFD:**

|                                     |                 |
|-------------------------------------|-----------------|
| Cash on hand and in bank            | \$ 5,071        |
| <b>Total Cash &amp; Investments</b> | <b>\$ 5,071</b> |

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits, to the extent possible, the average life of the portfolio not exceed five years. As of December 31, 2014, the weighted average of maturity for the portfolio was 17 days. The LGIP is an unrated 2a-7 like pool, as defined by GASB Statement No. 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. As of December 31, 2014, the LGIP had a weighted average maturity of 43 days.

**Credit Risk:** State statute, as well as City policy, requires at the time of purchase that an investment carry a rating of one of the three highest credit ratings of a nationally recognized rating agency. As of December 31, 2014, the ratings for all fixed rate non-callable and callable agency securities were AAA. The LGIP is an unrated 2a-7 like pool. Per GASB Statement No. 40 guidelines, the LGIP balances are not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand accounts and certificates of deposit.

**Concentration of Credit Risk:** According to the City's investment policy, with the exception of US Treasuries

and the LGIP, no more than 25% of the City's total investment portfolio will be invested in securities offered by a single issuer. In accordance with GASB Statement No. 40, the City will report any investment in any one issuer that is 5% or more of the total City portfolio. As of December 31, 2014, the City did not have any investments meeting that criterion.

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

## 5. RECEIVABLES

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

|                                   | <b>Taxes</b> | <b>Accounts</b> | <b>Allowances for<br/>Uncollectibles</b> | <b>Assessments<br/>&amp; Notes</b> | <b>Accrued<br/>Interest</b> | <b>Total</b>  |
|-----------------------------------|--------------|-----------------|------------------------------------------|------------------------------------|-----------------------------|---------------|
| <b>Governmental Activities:</b>   |              |                 |                                          |                                    |                             |               |
| General Fund                      | \$ 7,876,728 | \$ 427,174      | \$ (6,277)                               | \$ -                               | \$ -                        | \$ 8,297,625  |
| Capital Improvements Fund         | 1,223,819    | -               | -                                        | -                                  | -                           | 1,223,819     |
| Special Assessments Fund          | -            | -               | -                                        | 12,422,855                         | -                           | 12,422,855    |
| Street Capital Project Fund       | -            | 145,333         | (2,560)                                  | -                                  | -                           | 142,773       |
| Other Governmental Funds          | 1,292,710    | 1,657,739       | -                                        | -                                  | -                           | 2,950,449     |
| Internal Service Funds            | 121,836      | 86,382          | (46)                                     | 2,339,411                          | 51                          | 2,547,634     |
| Subtotal                          | \$10,515,093 | \$ 2,316,628    | \$ (8,883)                               | \$ 14,762,266                      | \$ 51                       | \$ 27,585,155 |
| <b>Business-Type Activities:</b>  |              |                 |                                          |                                    |                             |               |
| Water Fund                        | \$ -         | \$ 1,621,939    | \$ (29,043)                              | \$ 2,610,416                       | \$ 1                        | \$ 4,203,313  |
| Sewerage Fund                     | -            | 11,917,382      | (52,421)                                 | 2,610,416                          | 2                           | 14,475,379    |
| Golf Complex Fund                 | -            | 58,676          | (3,394)                                  | -                                  | -                           | 55,282        |
| Subtotal                          | \$ -         | \$ 13,597,997   | \$ (84,858)                              | \$ 5,220,832                       | \$ 3                        | \$ 18,733,974 |
| Total Primary Government          | \$10,515,093 | \$ 15,914,625   | \$ (93,741)                              | \$ 19,983,098                      | \$ 54                       | \$ 46,319,129 |
| <b>Component Unit Activities:</b> |              |                 |                                          |                                    |                             |               |
| Special Events Center PFD         | \$ 144,028   | \$ -            | \$ -                                     | \$ -                               | \$ -                        | \$ 144,028    |
| Total Component Unit              | \$ 144,028   | \$ -            | \$ -                                     | \$ -                               | \$ -                        | \$ 144,028    |

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At December 31, 2014, the unearned revenue reported in the governmental funds related to special assessments was \$12,422,855. Of that amount, \$373,704 is delinquent.

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

### a. TAXES RECEIVABLE

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

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

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

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

b. **ACCOUNTS RECEIVABLE**

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

c. **ASSESSMENTS AND NOTES RECEIVABLE**

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

Under the Contingent Loan Agreement (see Note 18 - Contingencies) between the City and the Kent Public Facilities District, a discretely presented component unit of the City, the City has to date made \$18,493,452 in debt payments on behalf of the District. At December 31, 2014, the City has recorded a note receivable of \$18,719,297 (including interest) from the District on the governmental activities of the government-wide Statement of Net Position. Since the City believes the likelihood of the District being able to repay this note is remote, the City has also recorded an allowance for doubtful accounts for the entire balance of the note.

d. **ACCRUED INTEREST RECEIVABLE**

Accrued investment interest totaling \$54 was recognized at December 31, 2014. This interest was recorded in each fund based on its investment position.

## 6. **INTERFUND BALANCES AND TRANSFERS**

### **INTERFUND BALANCES**

|                                  | <b>Interfund Loan<br/>Receivable</b> | <b>Interfund Loan<br/>Payable</b> |
|----------------------------------|--------------------------------------|-----------------------------------|
| <b>Governmental Activities:</b>  |                                      |                                   |
| <b>Governmental Funds:</b>       |                                      |                                   |
| General Fund                     | \$ 70,000                            | \$ 2,026,104                      |
| Capital Improvement Fund         | -                                    | 4,225,000                         |
| Other Governmental Funds         | -                                    | 145,000                           |
| <b>Internal Service Funds:</b>   |                                      |                                   |
| Insurance Fund                   | 3,000,000                            | -                                 |
| <b>Business-type Activities:</b> |                                      |                                   |
| <b>Proprietary Funds:</b>        |                                      |                                   |
| Enterprise Funds:                |                                      |                                   |
| Water Fund                       | 5,023,144                            | -                                 |
| Sewerage Fund                    | 1,302,960                            | -                                 |
| Golf Complex Fund                | -                                    | 3,000,000                         |
| <b>Totals</b>                    | <b>\$ 9,396,104</b>                  | <b>\$ 9,396,104</b>               |

The net internal balances shown on the Statement of Net Position is \$3,326,104 due from governmental activities to business-type activities.

In December 2014, the Mayor approved a \$3,000,000 one-year interfund loan from the Insurance Fund to the Golf Complex Fund to cover working capital. Also approved were one-day loans of \$75,000 from the Sewerage Fund to the Environmental Mitigation Fund and \$4,225,000 from the Water Fund to Other Capital Projects Fund to cover year-end expenditures as well as temporary cash flow shortages. These loans are bearing interest at the City's daily funds rate.

Also executed by the City on December 31, 2014, was a non-interest bearing loan for \$70,000 from the General Fund to the Housing & Community Development Fund to cover year-end expenditures.

Additionally, during fiscal year 2014, the City established a \$2,026,104 repayment from the General Fund to the Water (\$798,144) and Sewerage (\$1,227,960) Funds to be repaid over four years, beginning in 2015.

## TRANSFERS

A summary of transfers by fund type is as follows:

|                                       | Transfers In         | Transfers Out        |
|---------------------------------------|----------------------|----------------------|
| <b><u>Governmental Funds:</u></b>     |                      |                      |
| <b><u>Major Funds:</u></b>            |                      |                      |
| General Fund                          | \$ 931,217           | \$ 3,822,042         |
| Capital Improvement Fund              | 2,766,676            | 8,925,896            |
| Special Assessment Fund               | -                    | 1,555,750            |
| Non-voted Debt                        | 9,923,205            | -                    |
| Street Capital Projects Fund          | 7,300,398            | 61,561               |
| Subtotal                              | \$ 20,921,496        | \$ 14,365,249        |
| <b><u>Non-major Funds:</u></b>        |                      |                      |
| Street                                | \$ -                 | \$ 7,942,117         |
| Youth/Teen Programs                   | -                    | 856,524              |
| Criminal Justice                      | 101,882              | -                    |
| Voted Debt Service                    | -                    | 1,073                |
| Parks Capital Projects                | 2,100,000            | -                    |
| Technology Capital Projects           | 1,313,563            | -                    |
| Subtotal                              | \$ 3,515,445         | \$ 8,799,714         |
| Total Governmental                    | \$ 24,436,941        | \$ 23,164,963        |
| <b><u>Proprietary Funds:</u></b>      |                      |                      |
| <b><u>Major Funds:</u></b>            |                      |                      |
| Water Utility                         | \$ -                 | \$ 71,920            |
| Sewerage Utility                      | 161,653              | 73,004               |
| Subtotal                              | \$ 161,653           | \$ 144,924           |
| <b><u>Internal Service Funds:</u></b> |                      |                      |
| Equipment Rental                      | \$ 57,882            | \$ -                 |
| Central Services                      | -                    | 1,313,563            |
| Facilities                            | -                    | 33,026               |
| Subtotal                              | \$ 57,882            | \$ 1,346,589         |
| Total Proprietary                     | \$ 219,535           | \$ 1,491,513         |
| <b>Total Transfers</b>                | <b>\$ 24,656,476</b> | <b>\$ 24,656,476</b> |

**7. PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION****a. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS**

Below is a summary of 2014 changes in governmental capital assets:

|                                                    | Balance<br>January 1  | Additions           | Transfers &<br>Retirements | Balance<br>December 31 |
|----------------------------------------------------|-----------------------|---------------------|----------------------------|------------------------|
| <b>Governmental Activities:</b>                    |                       |                     |                            |                        |
| Capital Assets not being depreciated:              |                       |                     |                            |                        |
| Land                                               | \$ 219,458,162        | \$ 6,450            | \$ -                       | \$ 219,464,612         |
| Construction in Progress                           | 106,848,293           | 11,536,258          | (12,023,469)               | 106,361,082            |
| Total non-depreciable assets                       | 326,306,455           | 11,542,708          | (12,023,469)               | 325,825,694            |
| Capital Assets being depreciated:                  |                       |                     |                            |                        |
| Buildings                                          | 128,375,959           | 3,962,584           | -                          | 132,338,543            |
| Site Improvements                                  | 53,662,622            | 1,945,532           | -                          | 55,608,154             |
| Equipment                                          | 52,078,331            | 1,537,689           | (382,747)                  | 53,233,273             |
| Infrastructure                                     | 533,625,974           | 4,997,775           | -                          | 538,623,749            |
| Total depreciable assets, gross                    | 767,742,886           | 12,443,580          | (382,747)                  | 779,803,719            |
| Less Accumulated Depreciation for:                 |                       |                     |                            |                        |
| Buildings                                          | (28,862,159)          | (1,346,230)         | -                          | (30,208,389)           |
| Site Improvements                                  | (16,985,718)          | (2,216,169)         | -                          | (19,201,887)           |
| Equipment                                          | (42,119,329)          | (1,076,892)         | 299,297                    | (42,896,924)           |
| Infrastructure                                     | (244,548,704)         | (10,651,461)        | -                          | (255,200,165)          |
| Total Accumulated Depreciation                     | (332,515,910)         | (15,290,752)        | 299,297                    | (347,507,365)          |
| Total depreciable assets, net                      | 435,226,976           | (2,847,172)         | (83,450)                   | 432,296,354            |
| <b>Governmental Activities Capital Assets, net</b> | <b>\$ 761,533,431</b> | <b>\$ 8,695,536</b> | <b>\$(12,106,919)</b>      | <b>\$ 758,122,048</b>  |

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

A summary of Business-type Property, Plant, and Equipment at December 31, 2014 follows:

|                                                     | Balance<br>January 1  | Additions            | Transfers &<br>Retirements | Balance<br>December 31 |
|-----------------------------------------------------|-----------------------|----------------------|----------------------------|------------------------|
| <b>Business-type Activities:</b>                    |                       |                      |                            |                        |
| Capital Assets not being depreciated:               |                       |                      |                            |                        |
| Land                                                | \$ 11,367,016         | \$ 1,500             | \$ -                       | \$ 11,368,516          |
| Construction in Progress                            | 152,077,420           | 25,080,813           | (7,816,805)                | 169,341,428            |
| Total non-depreciable assets                        | 163,444,436           | 25,082,313           | (7,816,805)                | 180,709,944            |
| Capital Assets being depreciated:                   |                       |                      |                            |                        |
| Buildings                                           | 5,181,604             | -                    | -                          | 5,181,604              |
| Site Improvements                                   | 254,845,959           | 8,233,091            | -                          | 263,079,050            |
| Equipment                                           | 3,816,395             | 359,528              | -                          | 4,175,923              |
| Total depreciable assets, gross                     | 263,843,958           | 8,592,619            | -                          | 272,436,577            |
| Less Accumulated Depreciation for:                  |                       |                      |                            |                        |
| Buildings                                           | (4,439,039)           | (151,360)            | -                          | (4,590,399)            |
| Site Improvements                                   | (96,891,051)          | (5,828,514)          | -                          | (102,719,565)          |
| Equipment                                           | (2,971,320)           | (134,775)            | -                          | (3,106,095)            |
| Total Accumulated Depreciation                      | (104,301,410)         | (6,114,649)          | -                          | (110,416,059)          |
| Total depreciable assets, net                       | 159,542,548           | 2,477,970            | -                          | 162,020,518            |
| <b>Business-type Activities Capital Assets, net</b> | <b>\$ 322,986,984</b> | <b>\$ 27,560,283</b> | <b>\$(7,816,805)</b>       | <b>\$ 342,730,462</b>  |

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

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

|                                                              |                      |
|--------------------------------------------------------------|----------------------|
| <b>Governmental Activities:</b>                              |                      |
| General Government                                           | \$ 762,631           |
| Judicial                                                     | 51,076               |
| Public Safety                                                | 370,851              |
| Community Development                                        | 9,250                |
| Public Works                                                 | 10,966,167           |
| Leisure Services                                             | 3,098,522            |
| Health and Human Services                                    | 32,255               |
| <b>Total Depreciation Expense – Governmental Activities</b>  | <b>\$ 15,290,752</b> |
| <b>Business-type Activities:</b>                             |                      |
| Water                                                        | \$ 1,810,788         |
| Sewerage                                                     | 4,108,145            |
| Golf Complex                                                 | 195,714              |
| <b>Total Depreciation Expense – Business-type Activities</b> | <b>\$ 6,114,647</b>  |

**8. SHORT-TERM DEBT**

The City of Kent did not have any short-term debt during the current fiscal year, January through December 2014.

**9. LEASES**

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

Operating Leases

The City leases space from Charlie Perkins for storage space on Smith Street. The current lease commenced on April 1, 2014 and continues for a period of five years. The City pays \$4,750 per month for the first two years and \$5,000 per month for the remaining three years of the lease. Additionally, the City reimburses Charlie Perkins for all property taxes applicable to the property during the lease term. The City paid \$57,000 in 2014 for this lease.

The Golf Complex has leases with Yamaha Leasing for 76 Golf carts with payments of \$6,369 per month ending October 2014. No lease payments are due for the months of November 2014 through February 2015 when a new eight month lease of \$6,368 per month, plus taxes will begin. Additionally the City pays the annual property tax on the rented carts. The City paid \$54,107 in 2014 for this lease.

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

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------|
| 2015               | \$ 107,949    |
| 2016               | 59,250        |
| 2017               | 60,000        |
| 2018               | 60,000        |
| 2019               | 15,000        |

**10. LONG-TERM INDEBTEDNESS****PRIMARY GOVERNMENT:**

The City of Kent has two types of long-term debt: (a) **bonded debt** (net of unamortized premium/discount) of \$78,363,982 and (b) **non-bonded debt** of \$55,118,526 for a total of \$133,482,508 in long-term indebtedness.

**a. BONDED DEBT**

Bonded debt has three components: General Obligation, Special Assessment, and Revenue.

**(1) General Obligation Bonds**

General Obligation Bonds totaling \$54,756,000 (net of premiums and discounts) are direct obligations of the City for which its full faith and credit is pledged. They have been issued for governmental and business-type activities. Debt service for governmental activities is paid from the General Obligation Debt Service voted and non-voted funds. Debt service for voted bond issues is funded with special property tax levies. Currently, the City does not have any outstanding voted debt.

Debt service for LTGO (non-voted) bond issues is funded by transfers from operating funds. Debt service for business-type activities is paid for by the Water, Sewerage and Golf enterprise funds. Additional LTGO bond capacity without a vote (1.5 percent of assessed taxable property value) at December 31, 2014 is \$139,709,297. Total additional general obligation capacity for all purposes at December 31, 2014 is \$983,802,101. The general obligation bonds have various interest rates between 2.0 percent and 5.45 percent with maturity dates to 2025. The City's general obligation bonds carry a Moody's "Baa2" rating as of February 6, 2014 and Standard and Poor's "AA-" rating as of February 21, 2014.

**(2) Special Assessment Bonds with Governmental Commitment**

Special Assessment Bonds totaling \$1,980,000 are paid through the collection of special assessments levied against the property owners benefited by the improvements. In accordance with GASB Statement No. 6, special assessment debt is reported in the government's financial statements because the government is contingently liable for the debt. The special assessment bonds are supported solely by the property owners and the Local Improvement Guarantee Fund and are not a general obligation of the City. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other foreclosure proceeds are received. As of December 31, 2014, the guaranty reserve was \$198,000, which amounts to 10.0 percent of net outstanding debt. The account is funded with transfers from closed special assessment districts, interest income and as a cost of establishing a special assessment district.

**(3) Revenue Bonds**

Revenue Bonds are payable from pledged revenues generated by the respective Proprietary Funds. The Water and Sewerage Funds' outstanding Combined Utility System Revenue Bonds, Series 2009A and Series 2009B Taxable (Build America Bonds) at December 31, 2014, totaled \$20,433,172, including unamortized premium, for the 2009 issue, split equally between each fund. The interest rates of the revenue bonds range from 3.0 percent to 6.12 percent with maturity dates to 2029. The bonds have been assigned a rating of AA by Standard & Poor's Ratings Services.

The following is a summary of long-term bonded debt transactions of the City for the year ended December 31, 2014:

|                                            | <u>Governmental Activities</u> |                           | <u>Business-type Activities</u> |                |               |
|--------------------------------------------|--------------------------------|---------------------------|---------------------------------|----------------|---------------|
|                                            | <u>General Obligation</u>      | <u>Special Assessment</u> | <u>General Obligation</u>       | <u>Revenue</u> | <u>Total</u>  |
| Net Bonded Long-Term Debt                  |                                |                           |                                 |                |               |
| Payable at 1/1                             | \$ 57,903,469                  | \$ 2,700,000              | \$ 3,665,426                    | \$ 21,470,198  | \$ 85,739,093 |
| Unamortized Discount-prior year            | 95,942                         | -                         | -                               | -              | 95,942        |
| Unamortized Premium-prior year             | (671,837)                      | -                         | -                               | (305,198)      | (977,035)     |
| Bonded Long-Term Debt Payable at 1/1       | 57,327,574                     | 2,700,000                 | 3,665,426                       | 21,165,000     | 84,858,000    |
| New issues                                 | 8,671,070                      | -                         | 3,558,930                       | -              | 12,230,000    |
| Debt retired or extinguished               | 14,180,289                     | 720,000                   | 4,286,711                       | 975,000        | 20,162,000    |
| Bonded Long-Term Debt Payable at 12/31     | 51,818,355                     | 1,980,000                 | 2,937,645                       | 20,190,000     | 76,926,000    |
| Unamortized Discount                       | (87,578)                       | -                         | -                               | -              | (87,578)      |
| Unamortized premium                        | 1,079,581                      | -                         | 202,807                         | 243,172        | 1,525,560     |
| Net Bonded Long-Term Debt Payable at 12/31 | \$ 52,810,358                  | \$ 1,980,000              | \$ 3,140,452                    | \$ 20,433,172  | \$ 78,363,982 |
| Current Portion                            | \$ 5,069,385                   | \$ 725,000                | \$ 513,165                      | \$ 1,015,000   | \$ 7,322,550  |

The following is a summary of bonded debt issuance and redemption information as of December 31, 2014

|                                                            | <u>Issuance Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Original Amount</u> | <u>Redemption to Date</u> | <u>Outstanding 12/31/14</u> | <u>Due Within One Year</u> |
|------------------------------------------------------------|----------------------|----------------------|----------------------|------------------------|---------------------------|-----------------------------|----------------------------|
| <b>GENERAL BONDED DEBT:</b>                                |                      |                      |                      |                        |                           |                             |                            |
| <b>GENERAL OBLIGATION BONDS – GOVERNMENTAL ACTIVITIES</b>  |                      |                      |                      |                        |                           |                             |                            |
| <u>LTGO Bonds:</u>                                         |                      |                      |                      |                        |                           |                             |                            |
| General Purpose                                            | 2003                 | 2018                 | 2.3-5.5%             | \$ 7,518,000           | \$ 6,863,000              | \$ 655,000                  | \$ 151,000                 |
| General Purpose                                            | 2004                 | 2021                 | 2-4.13%              | 16,505,000             | 16,505,000                | -                           | -                          |
| General Purpose                                            | 2005                 | 2020                 | 4.05%                | 2,252,000              | 591,000                   | 1,661,000                   | 232,000                    |
| General Purpose                                            | 2006                 | 2024                 | 4.0-5.0%             | 12,000,000             | 2,600,000                 | 9,400,000                   | 800,000                    |
| Less: Unamortized Discount                                 |                      |                      |                      |                        | 36,950                    | (36,950)                    |                            |
| General Purpose                                            | 2008                 | 2025                 | 4.1-5.2%             | 24,000,000             | 4,005,000                 | 19,995,000                  | 730,000                    |
| Less: Unamortized Discount                                 |                      |                      |                      |                        | 50,628                    | (50,628)                    |                            |
| General Purpose                                            | 2009                 | 2019                 | 3.0-4.0%             | 8,410,000              | 3,745,000                 | 4,665,000                   | 865,000                    |
| Plus: Unamortized Premium                                  |                      |                      |                      |                        | (161,238)                 | 161,238                     |                            |
| General Purpose                                            | 2012                 | 2022                 | 2.0-4.5%             | 10,840,000             | 2,555,000                 | 8,285,000                   | 1,040,000                  |
| Plus: Unamortized Premium                                  |                      |                      |                      |                        | (424,219)                 | 424,219                     |                            |
| General Purpose                                            | 2014                 | 2021                 | 2.0-4.0%             | 8,671,070              | 1,513,715                 | 7,157,355                   | 1,251,385                  |
| Plus: Unamortized Premium                                  |                      |                      |                      |                        | (494,124)                 | 494,124                     |                            |
| Total General Obligation – LGTO (Net)                      |                      |                      |                      | \$ 90,196,070          | \$37,385,712              | \$52,810,358                | \$ 5,069,385               |
| TOTAL GOVERNMENTAL ACTIVITIES (Net)                        |                      |                      |                      | \$ 90,196,070          | \$37,385,712              | \$52,810,358                | \$ 5,069,385               |
| <b>GENERAL OBLIGATION BONDS – BUSINESS-TYPE ACTIVITIES</b> |                      |                      |                      |                        |                           |                             |                            |
| <u>LTGO Bonds:</u>                                         |                      |                      |                      |                        |                           |                             |                            |
| Drainage                                                   | 2004                 | 2021                 | 2-4.13%              | 6,775,000              | 6,775,000                 | -                           | -                          |
| Drainage – 04 Refunding                                    | 2014                 | 2021                 | 2.0-4.0%             | 3,558,930              | 621,285                   | 2,937,645                   | 513,615                    |
| Plus: Unamortized Premium                                  |                      |                      |                      |                        | (202,807)                 | 202,807                     | -                          |
| Total Sewerage Fund (Net)                                  |                      |                      |                      | \$ 10,333,930          | \$ 7,193,478              | \$ 3,140,452                | \$ 513,615                 |
| TOTAL BUSINESS-TYPE ACTIVITIES (Net)                       |                      |                      |                      | \$ 10,333,930          | \$ 7,193,478              | \$ 3,140,452                | \$ 513,615                 |
| <b>TOTAL GENERAL OBLIGATION BONDS (Net)</b>                |                      |                      |                      | <b>\$100,530,000</b>   | <b>\$44,579,190</b>       | <b>\$55,950,810</b>         | <b>\$ 5,583,000</b>        |

|                                                            | Issuance<br>Date | Maturity<br>Date | Interest<br>Rate | Original<br>Amount   | Redemption<br>to Date | Outstanding<br>12/31/14 | Due Within<br>One Year |
|------------------------------------------------------------|------------------|------------------|------------------|----------------------|-----------------------|-------------------------|------------------------|
| <b>SPECIAL ASSESSMENT BONDS – GOVERNMENTAL ACTIVITIES:</b> |                  |                  |                  |                      |                       |                         |                        |
| LID 353 et. al.                                            | 2004             | 2019             | 2.5-4.7%         | \$ 11,758,557        | \$ 9,778,557          | \$ 1,980,000            | \$ 725,000             |
| <b>TOTAL SPECIAL ASSESSMENT BONDS</b>                      |                  |                  |                  | <b>\$ 11,758,557</b> | <b>\$ 9,778,557</b>   | <b>\$ 1,980,000</b>     | <b>\$ 725,000</b>      |
| <b>TOTAL GENERAL BONDED DEBT (Net)</b>                     |                  |                  |                  |                      |                       |                         |                        |
|                                                            |                  |                  |                  | <b>\$112,288,557</b> | <b>\$54,357,747</b>   | <b>\$57,930,810</b>     | <b>\$ 6,308,000</b>    |
| <b>REVENUE BONDS – BUSINESS-TYPE ACTIVITIES:</b>           |                  |                  |                  |                      |                       |                         |                        |
| <b>Water Fund:</b>                                         |                  |                  |                  |                      |                       |                         |                        |
| Revenue Bonds Series A                                     | 2009             | 2018             | 3.0-5.0%         | \$ 4,560,000         | \$ 2,405,000          | \$ 2,155,000            | \$ 507,500             |
| Plus: Unamortized Premium                                  |                  |                  |                  |                      | (121,586)             | 121,586                 |                        |
| Revenue Bonds Series B                                     | 2009             | 2029             | 5.06-6.12%       | \$ 7,940,000         | \$ -                  | \$ 7,940,000            | \$ -                   |
| Total (Net)                                                |                  |                  |                  | \$ 12,500,000        | \$ 2,283,414          | \$10,216,586            | \$ 507,500             |
| <b>Sewerage Fund:</b>                                      |                  |                  |                  |                      |                       |                         |                        |
| Revenue Bonds Series A                                     | 2009             | 2018             | 3.0-5.0%         | \$ 4,560,000         | \$ 2,405,000          | \$ 2,155,000            | \$ 507,500             |
| Plus: Unamortized Premium                                  |                  |                  |                  |                      | (121,586)             | 121,586                 |                        |
| Revenue Bonds Series B                                     | 2009             | 2029             | 5.06-6.12%       | \$ 7,940,000         | \$ -                  | \$ 7,940,000            | \$ -                   |
| Total (Net)                                                |                  |                  |                  | \$ 12,500,000        | \$ 2,283,414          | \$10,216,586            | \$ 507,500             |
| <b>TOTAL REVENUE BONDS (Net)</b>                           |                  |                  |                  | <b>\$ 25,000,000</b> | <b>\$ 4,566,828</b>   | <b>\$20,433,172</b>     | <b>\$ 1,015,000</b>    |
| <b>TOTAL BONDED DEBT (Net)</b>                             |                  |                  |                  |                      |                       |                         |                        |
|                                                            |                  |                  |                  | <b>\$137,288,557</b> | <b>\$58,924,575</b>   | <b>\$78,363,982</b>     | <b>\$ 7,323,000</b>    |

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

| Year         | Governmental Activities |                      | Business-type Activities |                   | Total                |
|--------------|-------------------------|----------------------|--------------------------|-------------------|----------------------|
|              | Principal               | interest             | principal                | interest          |                      |
| 2015         | \$ 5,069,385            | \$ 2,297,184         | \$ 513,615               | \$ 98,634         | \$ 7,978,818         |
| 2016         | 5,026,765               | 2,115,880            | 461,235                  | 88,362            | 7,692,242            |
| 2017         | 5,015,330               | 1,926,970            | 398,670                  | 74,525            | 7,415,495            |
| 2018         | 4,968,895               | 1,725,601            | 336,105                  | 62,565            | 7,093,166            |
| 2019         | 4,885,350               | 1,514,187            | 334,650                  | 49,121            | 6,783,308            |
| 2020-2024    | 24,362,630              | 4,319,574            | 893,370                  | 49,470            | 29,625,044           |
| 2025-2029    | 2,490,000               | 130,725              | -                        | -                 | 2,620,725            |
| <b>Total</b> | <b>\$51,818,355</b>     | <b>\$ 14,030,121</b> | <b>\$ 2,937,645</b>      | <b>\$ 422,677</b> | <b>\$ 69,208,798</b> |

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

| Year         | Governmental Activities |                   | Total               |
|--------------|-------------------------|-------------------|---------------------|
|              | Principal               | Interest          |                     |
| 2015         | 725,000                 | 92,070            | 817,070             |
| 2016         | 675,000                 | 58,358            | 733,358             |
| 2017         | 580,000                 | 26,970            | 606,970             |
| <b>Total</b> | <b>\$ 1,980,000</b>     | <b>\$ 177,398</b> | <b>\$ 2,157,398</b> |

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

Revenue bond debt service requirements to maturity are as follows:

| Year         | Water Revenue Bonds |                     | Sewerage Revenue Bonds |                     | Total                |
|--------------|---------------------|---------------------|------------------------|---------------------|----------------------|
|              | Principal           | interest            | principal              | interest            |                      |
| 2015         | \$ 507,500          | \$ 554,472          | \$ 507,500             | \$ 554,472          | \$ 2,123,944         |
| 2016         | 527,500             | 534,172             | 527,500                | 534,172             | 2,123,344            |
| 2017         | 550,000             | 513,072             | 550,000                | 513,072             | 2,126,144            |
| 2018         | 570,000             | 491,072             | 570,000                | 491,072             | 2,122,144            |
| 2019         | 600,000             | 462,572             | 600,000                | 462,572             | 2,125,144            |
| 2020-2024    | 3,332,500           | 1,800,479           | 3,332,500              | 1,800,479           | 10,265,958           |
| 2025-2029    | 4,007,500           | 754,902             | 4,007,500              | 754,902             | 9,524,804            |
| <b>Total</b> | <b>\$10,095,000</b> | <b>\$ 5,110,741</b> | <b>\$10,095,000</b>    | <b>\$ 5,110,741</b> | <b>\$ 30,411,482</b> |

#### DISCRETELY PRESENTED COMPONENT UNIT – SPECIAL EVENTS CENTER PFD:

The City of Kent Special Events Center Public Facilities District (PFD) has outstanding bonded debt (net of unamortized amounts) of \$60,335,604.

The following is a summary of bonded debt issuance and redemption information as of December 31, 2014:

|                                | Issuance Date | Maturity Date | Interest Rate | Original Amount      | Redemption to Date  | Outstanding 12/31/14 | Due Within One Year |
|--------------------------------|---------------|---------------|---------------|----------------------|---------------------|----------------------|---------------------|
| Sales Tax Bonds                | 2008          | 2037          | 4-5.25%       | \$ 53,150,000        | \$ -                | \$53,150,000         | \$ -                |
| Plus: Unamortized Premium      |               |               |               |                      | (910,604)           | 910,604              |                     |
| Revenue Bonds                  | 2008          | 2020          | 3.16-5.75%    | 10,130,000           | 3,855,000           | 6,275,000            | 865,000             |
| <b>TOTAL BONDED DEBT (Net)</b> |               |               |               | <b>\$ 63,280,000</b> | <b>\$ 2,944,396</b> | <b>\$60,335,604</b>  | <b>\$ 865,000</b>   |

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

| Special Events Center<br>Public Facilities District |                      |                     |                       |
|-----------------------------------------------------|----------------------|---------------------|-----------------------|
| Year                                                | Principal            | Interest            | Total                 |
| 2015                                                | \$ 865,000           | \$ 3,016,053        | \$ 3,881,053          |
| 2016                                                | 980,000              | 2,973,244           | 3,953,244             |
| 2017                                                | 1,100,000            | 2,921,755           | 4,021,755             |
| 2018                                                | 1,250,000            | 2,862,861           | 4,112,861             |
| 2019                                                | 1,400,000            | 2,794,061           | 4,194,061             |
| 2020-2024                                           | 9,715,000            | 12,706,290          | 22,421,290            |
| 2025-2029                                           | 15,535,000           | 9,795,900           | 25,330,900            |
| 2030-2034                                           | 18,680,000           | 5,181,000           | 23,861,000            |
| 2035-2039                                           | 9,900,000            | 1,012,500           | 10,912,500            |
| <b>Total</b>                                        | <b>\$ 59,425,000</b> | <b>\$43,263,664</b> | <b>\$ 102,688,664</b> |

#### Arbitrage Compliance

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

#### b. NONBONDED LONG-TERM DEBT

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

The City has certain contracts that are considered direct obligations of the City for which its full faith and credit is pledged. Debt service is paid from the Non-Voted Debt Service Fund. It is funded by transfers from operating funds. Long-term debt for the long-term portion of compensated absences of \$2,578,867 is included with the total non-bonded long-term debt for governmental activities. See Note 14a for additional information pertaining to compensated absences.

The City has non-bonded Proprietary Fund long-term debt payable from revenue generated by respective Proprietary Funds. The Water and Sewerage Funds have intergovernmental loans for specific capital projects. Long-term debt for the long-term portion of compensated absences of \$153,057 is recorded in the Proprietary Funds. See Note 14a for additional information pertaining to compensated absences.

The following is a summary of non-bonded debt issuance and redemption information as of December 31, 2014:

|                                      | Maturity Date | Beginning Balance    | Additions           | Reductions          | Ending Balance       | Due Within One Year |
|--------------------------------------|---------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| <b>GOVERNMENTAL ACTIVITIES:</b>      |               |                      |                     |                     |                      |                     |
| <b>General Obligation:</b>           |               |                      |                     |                     |                      |                     |
| Contract-Valley Com 2010 Ref         | 2015          | \$ 432,000           | \$ -                | \$ 212,000          | \$ 220,000           | \$ 220,000          |
| Trust Fund Loan (Streets) 2004       | 2024          | 5,532,155            | -                   | 507,774             | 5,024,381            | 507,774             |
| Trust Fund Loan (Streets) 2008       | 2028          | 4,021,382            | -                   | 268,092             | 3,753,290            | 268,092             |
| Interfund Loans 2012                 | 2022          | 8,671,556            | -                   | 1,111,313           | 7,560,243            | 790,237             |
| LID 358-Internal financing           |               | 27,256               | -                   | 27,256              | -                    | -                   |
| Compensated Absences                 |               | 4,328,204            | 3,219,499           | 3,812,551           | 3,735,152            | 1,414,868           |
| Total General Government             |               | \$ 23,012,553        | \$ 3,219,499        | \$ 5,938,986        | \$ 20,293,066        | \$ 3,200,971        |
| <b>Internal Service Funds:</b>       |               |                      |                     |                     |                      |                     |
| <u>Equipment Rental Fund:</u>        |               |                      |                     |                     |                      |                     |
| Compensated Absences                 |               | \$ 50,365            | \$ 23,854           | \$ 43,093           | \$ 31,126            | \$ 20,898           |
| <u>Central Services Fund:</u>        |               |                      |                     |                     |                      |                     |
| Compensated Absences                 |               | 199,766              | 203,640             | 198,757             | 204,649              | 72,571              |
| <u>Facilities Fund:</u>              |               |                      |                     |                     |                      |                     |
| Energy Conservation Loan 2004        | 2014          | 31,087               | -                   | 31,087              | -                    | -                   |
| Compensated Absences                 |               | 113,335              | 147,746             | 129,499             | 131,582              | 45,912              |
| <u>Insurance Fund:</u>               |               |                      |                     |                     |                      |                     |
| Compensated Absences                 |               | 56,048               | 50,684              | 41,065              | 65,667               | 35,059              |
| Total Internal Service Funds         |               | \$ 450,601           | \$ 425,924          | \$ 443,501          | \$ 433,024           | \$ 174,440          |
| <b>Total Governmental Activities</b> |               |                      |                     |                     |                      |                     |
| <b>Non-Bonded Long-Term Debt</b>     |               | <b>\$ 23,463,154</b> | <b>\$ 3,645,423</b> | <b>\$ 6,382,487</b> | <b>\$ 20,726,090</b> | <b>\$ 3,375,411</b> |

|                                       | Maturity Date | Beginning Balance | Additions    | Reductions   | Ending Balance | Due Within One Year |
|---------------------------------------|---------------|-------------------|--------------|--------------|----------------|---------------------|
| <b>BUSINESS-TYPE ACTIVITIES:</b>      |               |                   |              |              |                |                     |
| <b>Proprietary Funds:</b>             |               |                   |              |              |                |                     |
| <u>Water Fund:</u>                    |               |                   |              |              |                |                     |
| Trust Fund Loan 2001                  | 2021          | \$ 4,222,223      | \$ -         | \$ 527,779   | \$ 3,694,444   | \$ 527,778          |
| Trust Fund Loan 2002                  | 2022          | 4,781,250         | -            | 531,250      | 4,250,000      | 531,250             |
| Contract Tacoma Pipeline 2010         | 2040          | 11,140,000        | -            | 265,000      | 10,875,000     | 270,000             |
| Contract Tacoma Pipeline Ref 20022032 |               | 14,615,000        | -            | 205,000      | 14,410,000     | 235,000             |
| Compensated Absences                  |               | 182,595           | 116,799      | 149,630      | 149,764        | 100,419             |
| Total Water Fund                      |               | \$ 34,941,068     | \$ 116,799   | \$ 1,678,659 | \$ 33,379,208  | \$ 1,664,447        |
| <u>Sewerage Fund:</u>                 |               |                   |              |              |                |                     |
| Trust Fund Loan 2004                  | 2024          | \$ 825,000        | \$ -         | \$ 75,000    | \$ 750,000     | \$ 75,000           |
| Compensated Absences                  |               | 216,733           | 159,209      | 194,978      | 180,964        | 116,564             |
| Total Sewerage Fund                   |               | \$ 1,041,733      | \$ 159,209   | \$ 269,978   | \$ 930,964     | \$ 191,564          |
| <u>Golf Complex Fund:</u>             |               |                   |              |              |                |                     |
| Compensated Absences                  |               | \$ 81,166         | \$ 69,360    | \$ 68,262    | \$ 82,264      | \$ 42,952           |
| Total Golf Complex Fund               |               | \$ 81,166         | \$ 69,360    | \$ 68,262    | \$ 82,264      | \$ 42,952           |
| <b>Total Business-Type Activities</b> |               |                   |              |              |                |                     |
| Non-Bonded Long-Term Debt             |               | \$ 36,063,967     | \$ 345,368   | \$ 2,016,899 | \$ 34,392,436  | \$ 1,898,963        |
| <b>TOTAL NON-BONDED</b>               |               |                   |              |              |                |                     |
| LONG-TERM DEBT                        |               | \$ 59,527,121     | \$ 3,990,791 | \$ 8,399,386 | \$ 55,118,526  | \$ 5,274,374        |

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

| Year         | <b>Contract, Loans, and Notes</b> |                   |                                 |                     |                      |
|--------------|-----------------------------------|-------------------|---------------------------------|---------------------|----------------------|
|              | <b>Governmental Activities</b>    |                   | <b>Business-Type Activities</b> |                     | <b>Total</b>         |
|              | <b>Principal</b>                  | <b>Interest</b>   | <b>Principal</b>                | <b>Interest</b>     |                      |
| 2015         | \$ 1,786,104                      | \$ 163,414        | \$ 1,639,028                    | \$ 1,100,251        | \$ 4,688,797         |
| 2016         | 1,578,115                         | 142,715           | 1,519,028                       | 1,080,719           | 4,320,577            |
| 2017         | 1,590,309                         | 126,663           | 1,549,028                       | 1,061,277           | 4,327,277            |
| 2018         | 1,602,689                         | 110,426           | 1,549,028                       | 1,040,435           | 4,302,578            |
| 2019         | 1,615,257                         | 94,001            | 1,779,028                       | 1,019,793           | 4,508,079            |
| 2020-2024    | 6,421,470                         | 203,291           | 7,334,306                       | 4,586,703           | 18,545,770           |
| 2025-2029    | 1,072,368                         | 13,404            | 8,325,000                       | 3,147,358           | 12,558,130           |
| 2030-2034    | -                                 | -                 | 6,830,000                       | 1,253,161           | 8,083,161            |
| 2035-2039    | -                                 | -                 | 2,825,000                       | 432,045             | 3,257,045            |
| 2040-2044    | -                                 | -                 | 630,000                         | 23,018              | 653,018              |
| <b>Total</b> | <b>\$15,666,312</b>               | <b>\$ 853,914</b> | <b>\$33,979,446</b>             | <b>\$14,744,760</b> | <b>\$ 65,244,432</b> |

c. **CURRENT REFUNDINGS**

During fiscal year 2014, the City issued \$12,230,000 Series 2014 General Obligation Bonds for the purpose of a current refunding of the outstanding balance of the Series 2004 General Obligation Bonds. Under the terms of the refunding bonds, sufficient assets to pay all principal and interest on the refunded bond issue have been placed in an irrevocable trust account at a commercial bank and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payments of principal and interest of the issue refunded. The City had a \$1,148,348 cash flow savings and an economic gain (the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate) of \$1,068,187.

**11. FUND BALANCE****Fund Balance**

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

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

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

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

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

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

- **Deficit** fund balance is excess of current liabilities and deferred inflows over current assets and deferred outflows. Of the major funds, the Capital Improvement Fund had a deficit fund balance of \$3,006,541 as of December 31, 2014. In the non-major funds, the Environmental Mitigation Special Revenue Fund had a deficit fund balance of \$17,383 as December 31, 2014.

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

**12. INFORMATION ON ENTERPRISE FUNDS**

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

**a. WATER**

The Water Fund collects all revenues for the City's water utility, pays the expenses of the utility, pays amounts as required by bond covenants for debt service and expends certain monies to fund improvements to the system. The water service fees include a flat monthly meter access fee and a water usage fee based on a customer's water consumption. Effective January 1, 2014, both meter access fees and usage fees increased three percent (Ordinance 3915). This follows a three percent increase in fees on January 1, 2013.

Shown below are the new rates effective as of January 1, 2014 compared to 2013 rates:

**Meter Access Fee Rates (monthly)**

|                   | Effective<br>2013 | Effective<br>2014 |
|-------------------|-------------------|-------------------|
| <u>Meter Size</u> |                   |                   |
| 3/4" or 5/8"      | \$ 12.72          | \$ 13.10          |
| 1"                | 21.61             | 22.26             |
| 1½"               | 32.99             | 33.98             |
| 2"                | 43.73             | 45.04             |
| 3"                | 92.72             | 95.50             |
| 4"                | 112.35            | 115.72            |
| 6"                | 166.89            | 171.90            |
| 8"                | 213.98            | 220.40            |
| 10"               | 273.27            | 281.47            |

**Usage Rates 2013**

|                    |                   | Inside City Limits     | Outside City Limits    |
|--------------------|-------------------|------------------------|------------------------|
| <u>Monthly</u>     |                   |                        |                        |
| Summer (5/1-9/30)  | First 700 cu. ft. | \$3.99 per 100 cu. ft. | \$4.88 per 100 cu. ft. |
|                    | Over 700 cu. ft.  | \$5.09 per 100 cu. ft. | \$5.99 per 100 cu. ft. |
| Winter (10/1-4/30) | First 700 cu. ft. | \$3.03 per 100 cu. ft. | \$3.99 per 100 cu. ft. |
|                    | Over 700 cu. ft.  | \$4.10 per 100 cu. ft. | \$5.09 per 100 cu. ft. |

**Usage Rates 2014**

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

**b. SEWERAGE**

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

The sewer operation is a collection system which pumps wastes to METRO, a regional treatment agency under King County. All collection districts in King County contract with METRO for sewage treatment. Rate increases for sewer are primarily related to pass through charges from METRO. For fiscal year 2014 the single family residential rates for sewer were a City fee of \$17.96 per month and a METRO fee of \$39.79 per month for a total monthly fee of \$57.75. All other than single family residential customers pay a sewer rate based on their water consumption with a minimum base rate of \$57.75 per month.

The drainage operation started in May 1985 and collects revenue to fund operating charges. Effective January 1, 2012, the drainage fee for single family residences increased ten percent from \$10.56 to \$11.64 per month. The rate was unchanged for 2014. The rate for multi-family and commercial establishments varies based on the property size, percentage of impervious surface, and the basin or basins in which the property is located.

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

| Amounts shown in thousands |            |           |           |
|----------------------------|------------|-----------|-----------|
|                            | Sewer      | Drainage  | Total     |
| Operating Revenue          | \$ 25,660  | \$ 19,310 | \$ 44,970 |
| Operating Expenses         | 27,211     | 10,167    | 37,378    |
| Operating Income           | \$ (1,551) | \$ 9,143  | \$ 7,592  |

c. **GOLF COMPLEX**

In 1981, the City purchased a golf facility that included a 9-hole executive golf course, a mini-putt facility, and a driving range. An 18-hole golf course was completed in 1989 funded by the issuance of revenue bonds. The revenue bonds were refunded in 1995 with a limited-tax general obligation issue that also included some new money for driving range and mini-putt improvements. On June 1, 1993, the City contracted with a private corporation to operate the City's Golf Complex. Due to the retirement of the key management person of the corporation, the management contract was terminated on December 31, 1999. The City took over all golf operations and continued a contract for merchandising at January 1, 2000. During 2000, the City entered into a separate management contract to operate the 9-hole executive course, mini-putt facility, and the driving range. The same contractor entered into a lease agreement with the City to build and operate a new restaurant at the 18-hole course. In 2010, the restaurant entered into a new lease agreement with a new contractor, Mick Kelly's Irish Pub. In 2001, the golf merchandise contractor closed its store at the complex. The City Council passed the golf merchandising program on November 20, 2001 to be effective December 1, 2001. The City operates the 18-hole course, runs the merchandising operation, and provides all of the maintenance at the complex. The Golf Complex Fund collects all revenues and pays all expenses. The complex had a decrease of net position of \$382,803 in 2014, and net position of \$4,013,264 at December 31, 2014.

### 13. **PROPERTY TAXES**

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

Tax bills are mailed on February 14 and are due on April 30. They may be paid in two equal installments on April 30 and October 31. If not remitted by April 30, the whole amount becomes delinquent with penalties and delinquent interest assessed on that amount. The County Treasurer remits collections to the individual taxing districts daily by electronic funds transfer as amounts are received and allocated to taxing districts. General and Debt Service Funds receivables at December 31, 2014 include \$434,132 for delinquent property taxes. No estimate of uncollectible taxes is made since state law allows for sale of property for failure to pay taxes.

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

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

Authority.

- b. Washington State law in RCW 84.55.010 limits the growth of regular property tax revenue. If total city assessed valuation increases by more than the allowable rate, the levy rate is proportionally decreased.
- c. Referendum 47 passed in November 1997 limited the growth of the property tax levy to the lesser of 6% or inflation.
- d. Initiative 747 passed in November 2001 further limits property tax levy growth by the lesser of 1% or inflation. As a result of Initiative 747, Washington State law in RCW 84.55.0101 limits the growth of regular property tax revenue to 1%.
- e. The City may voluntarily levy taxes below the legal limit.

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

For 2014, the City's regular tax levy was \$1.645 per \$1,000 of assessed valuation based on the 2013 assessed valuation of \$12,651,208,800 for a total regular levy of \$20,726,325.

## 14. PERSONNEL BENEFITS

### a. SICK, VACATION AND COMPENSATORY LEAVE

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

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

In the Governmental Activities Statement of Net Position, the current portion of compensated absences plus estimated benefits, including internal services, is estimated to be \$1,589,308 and the estimated long term, portion, including internal services is \$2,578,868. The liabilities are typically liquidated by the general fund, with exception to those related to internal services. In the Proprietary Funds, the current portion is that amount which is anticipated to be paid within the next fiscal period. The Proprietary Funds fully accrue compensated absences plus estimated benefits thereon, and separate current and long-term portions for balance sheet purposes only. In the Business-type Activities Statement of Net Position, the estimated current amount is \$259,935 and the estimated long-term portion is \$153,057.

b. **RETIREMENT**

The City's contributions to retirement programs in 2014 were:

|                                                   |                    |
|---------------------------------------------------|--------------------|
| To Federal Social Security System                 | \$3,722,409        |
| To State administered employee retirement systems | <u>4,018,480</u>   |
| Total                                             | <u>\$7,740,889</u> |

Retirement payments to City employees from all City funds in 2014 were:

|                                        |                   |
|----------------------------------------|-------------------|
| From Firemen's Relief and Pension Fund | <u>\$ 396,326</u> |
|----------------------------------------|-------------------|

Substantially, all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost sharing multiple employer public employee defined benefit and defined contribution retirement plans. The City of Kent contributes semi-monthly to the Public Employees Retirement System (PERS), the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF), and the Public Safety Employees' Retirement System (PSERS). The State legislature is responsible for establishing and amending plan provisions.

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 from their website [www.drs.wa.gov](http://www.drs.wa.gov) or contact them at:

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

The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers and GASB Statement No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27 as amended by GASB Statement No. 67 Financial Reporting for Pension Plans an amendment of GASB Statement No. 25.

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

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

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. (As used in this context, "plans" refers to tiers within PERS. The actual plan is PERS.)

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining

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

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

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

**PERS Plan 1** member are vested after five years of eligible service. Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 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        |
| Terminated plan members non-vested                                   | <u>101,191</u> |
| Total                                                                | <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.

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

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

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

Members not participating in JBM:

|              | <b>Plan 1<br/>Required</b> | <b>Plan 2<br/>Required</b> | <b>Plan 3<br/>Required</b> |
|--------------|----------------------------|----------------------------|----------------------------|
| Employer*    | 9.21%**                    | 9.21%**                    | 9.21%***                   |
| Employee     | 6.00%****                  | 4.92%****                  | *****                      |
| <b>Total</b> | <b>15.21%</b>              | <b>14.13%</b>              | <b>9.21%</b>               |

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

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

\*\*\*Plan 3 defined benefit portion only.

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

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

Members participating in JBM:

|              | <b>Plan 1<br/>Required</b> | <b>Plan 2<br/>Required</b> | <b>Plan 3<br/>Required</b> |
|--------------|----------------------------|----------------------------|----------------------------|
| Employer*    | 9.21%                      | 9.21%                      | 9.21%**                    |
| Employee     | 12.26%                     | 12.30%                     | 7.50%***                   |
| <b>Total</b> | <b>21.47%</b>              | <b>21.51%</b>              | <b>16.71%</b>              |

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

\*\*Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

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

|      | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2014 | \$ 61,471   | \$2,448,126 | \$ 563,258  |
| 2013 | 67,506      | 2,096,179   | 464,661     |
| 2012 | 70,265      | 1,935,045   | 414,761     |

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

Plan Description

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through 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, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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

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

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

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the

combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

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

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

**LEOFF Plan 2** members are vested after an employee completes five years of eligible service.

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

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

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

Labor and Industries.

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

|                                                                      |               |
|----------------------------------------------------------------------|---------------|
| Retirees and beneficiaries receiving benefits                        | 10,511        |
| Terminated plan members entitled to, but not yet receiving, benefits | 699           |
| Active plan members vested                                           | 16,830        |
| Terminated plan members non-vested                                   | 1,600         |
| <b>Total</b>                                                         | <b>29,640</b> |

#### Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

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

|              | <b>Plan 1<br/>Required</b> | <b>Plan 2<br/>Required</b> |
|--------------|----------------------------|----------------------------|
| Employer*    | 0.18%                      | 5.23%                      |
| Employee     | 0.00%                      | 8.41%                      |
| State        | N/A                        | 3.36%                      |
| <b>Total</b> | <b>0.18%</b>               | <b>17.00%</b>              |

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

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

|      | LEOFF Plan 1 | LEOFF Plan 2 |
|------|--------------|--------------|
| 2014 | \$ -         | \$ 747,455   |
| 2013 | -            | 697,390      |
| 2012 | 34           | 672,934      |

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

#### Plan Description

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

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

PSERS membership includes:

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

Covered employers include:

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

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

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation

from PSERS-covered employment.

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

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

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

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

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

|                                                                  |              |
|------------------------------------------------------------------|--------------|
| Retirees and beneficiaries receiving benefits                    | 43           |
| Terminated plan members entitled to, but not receiving, benefits | 119          |
| Active plan members vested                                       | 4,513        |
| Terminated plan members non-vested                               | 1,383        |
| <b>Total</b>                                                     | <b>6,058</b> |

#### Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

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

|           | <b>Plan 2<br/>Required</b> |
|-----------|----------------------------|
| Employer* | 10.54%                     |
| Employee  | 6.36%                      |
| Total     | 16.90%                     |

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

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

|      | <b>PSERS<br/>Plan 2</b> |
|------|-------------------------|
| 2014 | \$ 189,555              |
| 2013 | 160,043                 |
| 2012 | 128,920                 |

#### (4) Firemen's Relief and Pension System

##### Plan Description

The Firemen's Relief and Pension system is a single employer defined benefit pension plan authorized under RCW 41.18. Membership is limited to firefighters employed prior to March 1, 1970. The plan is closed to new entrants. Annual funding for the plan comes from an allocation of the state fire insurance premium tax. The City would be responsible for any additional contributions needed to maintain the Plan.

When the State Legislature established the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) in 1970 (RCW 41.26), LEOFF replaced the City's retirement system for fire fighters, but plan members in the system at that time were guaranteed that their benefits would not decrease with the switch to LEOFF. The LEOFF Act had the following impact on the City's pension plan:

- Benefits for firefighters leaving service prior to March 1, 1970 continue to be paid entirely by the City's Firefighters' Relief and Pension System under RCW 41.18.
- Firefighters in service on March 1, 1970 are entitled to receive the greater of the benefits provided under the prior pension law, or the LEOFF 1 Act (RCW 41.26.040).
- Firefighters hired after March 1, 1970 are covered only under the LEOFF Act.

The system is a trust fund in the financial reports of the City, and is administered by the Firemen's Relief and Pension Board made up of two members of the system, the Mayor, and a Councilmember. The plan is governed by State statute and does not issue a stand-alone financial report.

The accrual basis of accounting is used to prepare the Firemen's Relief and Pension Fund statements. Plan member contributions, if any, are recognized in the period in which the contributions are due. The City's contributions, including insurance fees collected by the State, are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

As of December 31, 2014 the plan covers the following:

|                                                                |           |
|----------------------------------------------------------------|-----------|
| Retirees and beneficiaries receiving benefits                  | 10        |
| Inactive plan members entitled to, but not receiving, benefits | 3         |
| <b>Total</b>                                                   | <b>13</b> |

Although medical and long-term care benefits may be paid from the Fund, the Plan does not administer a postemployment healthcare plan.

### Investments

The Plan operates under the City's investment policy and state statutes and participates in the pooled cash and investments of the City (see Note 4), but also carries specific investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. At December 31, 2014, the Plan held investments in the Federal Home Loan Mortgage Corporation (federal government backed securities) with a fair market value of \$889,972.

### Net Pension Liability

| <b>Firefighters' Pension Fund</b>                        |                          |                          |
|----------------------------------------------------------|--------------------------|--------------------------|
| <b>GASB Statement No. 67 Net Pension Liability</b>       |                          |                          |
|                                                          | <u>December 31, 2013</u> | <u>December 31, 2014</u> |
| Total pension liability                                  | \$ 2,220,000             | \$ 2,220,879             |
| Fiduciary net position *                                 | 2,880,593                | 2,736,694                |
| Net pension liability (asset)                            | (660,593)                | (515,815)                |
| Fiduciary net position as a % of total pension liability | 129.76%                  | 123.23%                  |

\* Fiduciary net position in this table is before posting the net pension obligation (asset) to the financial statements.

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and then was projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB Statement No. 67.

#### Other key actuarial assumptions:

|                       |                                                                                                                                                                                                                    |                                                                                                                                                                                                                    |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation Date        | January 1, 2014                                                                                                                                                                                                    | January 1, 2014                                                                                                                                                                                                    |
| Measurement Date      | December 31, 2013                                                                                                                                                                                                  | December 31, 2014                                                                                                                                                                                                  |
| Inflation             | 2.50 %                                                                                                                                                                                                             | 2.50%                                                                                                                                                                                                              |
| Salary increases      |                                                                                                                                                                                                                    |                                                                                                                                                                                                                    |
| Including inflation   | 3.50%                                                                                                                                                                                                              | 3.50%                                                                                                                                                                                                              |
| Mortality             | RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members) | RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members) |
| Actuarial cost method | Entry age normal                                                                                                                                                                                                   | Entry age normal                                                                                                                                                                                                   |

Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses. For the year ended December 31, 2014, the annual money-weighted rate of return was 1.96 percent.

Discount Rate

|                                                                 | <u>December 31, 2013</u> | <u>December 31, 2014</u> |
|-----------------------------------------------------------------|--------------------------|--------------------------|
| Discount rate                                                   | 3.75%                    | 3.50%                    |
| Long-term expected rate of return,<br>Net of investment expense | 3.75%                    | 3.50%                    |
| Municipal bond rate                                             | N/A                      | 3.50%                    |

GASB Statement No. 67 generally requires that a blended discount rate be used to measure the Total Pension Liability. The long-term expected rate of return may be used to discount liabilities to the extent that the Plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20 year high quality (AA/Aa or higher) municipal bond rate must be used for periods when Fiduciary Net Position is not projected to cover benefits and administrative expenses. The Bond Buyer General Obligation 20-year municipal bond index for December 31, 2014 is 3.56%.

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

Sensitivity Analysis

The following presents the net pension liability of the Plan, calculated using the discount rate of 3.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate.

|                               | <u>1%<br/>Decrease<br/>2.50%</u> | <u>Current<br/>Discount Rate<br/>3.50%</u> | <u>1%<br/>Increase<br/>4.50%</u> |
|-------------------------------|----------------------------------|--------------------------------------------|----------------------------------|
| Total pension liability       | \$ 2,442,176                     | \$ 2,220,879                               | \$ 2,030,190                     |
| Fiduciary net position *      | <u>2,736,694</u>                 | <u>2,736,694</u>                           | <u>2,736,694</u>                 |
| Net pension liability (asset) | \$ (294,518)                     | \$ (515,815)                               | \$ (706,504)                     |

\* Fiduciary net position in this table is before posting the net pension obligation (asset) to the financial statements.

Long-term Expected Rate of Return

The best-estimate for the long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2014.

| <b>Asset Class</b>                       | <b>Index</b>             | <b>Long-term Expected Real Rate of Return</b> |
|------------------------------------------|--------------------------|-----------------------------------------------|
| Cash                                     | Citigroup 90 Day T-Bills | 0.54%                                         |
| Long-term Bonds                          | Barclays Long Gov/Cred   | 2.99%                                         |
| Assumed Inflation – Mean                 |                          | 2.25%                                         |
| <b>Long-Term Expected Rate of Return</b> |                          | <b>3.50%</b>                                  |

**Firefighters' Pension Fund**  
**GASB Statement No. 67 Changes in Net Pension Liability**

| <b>Changes in Net Pension Liability</b>             | <b>Increase (Decrease)</b>     |                                    |                              |
|-----------------------------------------------------|--------------------------------|------------------------------------|------------------------------|
|                                                     | <b>Total Pension Liability</b> | <b>Plan Fiduciary Net Position</b> | <b>Net Pension Liability</b> |
|                                                     | <b>(a)</b>                     | <b>(b)</b>                         | <b>(a) – (b)</b>             |
| Balances as of December 31, 2013                    | \$ 2,220,000                   | \$ 2,880,593                       | \$ (660,593)                 |
| Changes for the year:                               |                                |                                    |                              |
| Service costs                                       | -                              | -                                  | -                            |
| Interest on total pension liability                 | 77,086                         |                                    | 77,086                       |
| Effect of plan changes                              | -                              |                                    | -                            |
| Effect of economic/demographic gains or losses      | -                              |                                    | -                            |
| Effects of assumptions changes or inputs            | 67,119                         |                                    | 67,119                       |
| Benefit payments                                    | (143,326)                      | (143,326)                          | -                            |
| Medical payments from fund                          |                                | (226,000)                          | 226,000                      |
| Employer contributions                              |                                | -                                  | -                            |
| Contributions from state fire insurance premium tax |                                | 178,899                            | (178,899)                    |
| Net investment income                               |                                | 54,853                             | (54,853)                     |
| Administrative expenses                             |                                | (8,325)                            | 8,325                        |
| Balance as of December 31, 2014                     | \$ 2,220,879                   | \$ 2,736,694                       | \$ (515,815)                 |

Note: Fiduciary net position in this table is before posting the net pension obligation (asset) to the financial statements.

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

During the year ended December 31, 2007, the City adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45), which requires the City to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the City, under GASB No. 45, has recorded an asset of \$335,218 for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such asset is included in restricted assets in the December 31, 2014 statement of net position. The effect of GASB No. 45 for the current fiscal year was to decrease the City's excess of revenue over expenses and the City's net position for the year ended December 31, 2014 by approximately \$262,223.

*Plan Description:* The City of Kent Health Plan for LEOFF I Retirees (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the City. The Health Plan provides medical, prescription drug, dental, vision, long-term care, and other unreimbursed

medical benefits to eligible retirees. The Health Plan's actuary is Healthcare. The Health Plan does not issue a separate stand-alone financial report.

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

For the fiscal year ended December 31, 2014, the City contributed an estimated \$993,812 to the Health Plan to prefund benefits.

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

|                                            | 12/31/14     |
|--------------------------------------------|--------------|
| Amortization of unfunded actuarial         |              |
| Accrued liability (UAAL) at transition     | \$ 1,246,316 |
| ARC                                        | 1,246,316    |
| Interest on net OBEB obligation            | (547)        |
| Adjustment to annual required contribution | 10,266       |
| Annual OBEB cost (expense)                 | 1,256,035    |
| Contributions made                         | (993,812)    |
| Increase in net OPEB obligation            | 262,223      |
| Net OBEP obligation - beginning of year    | (597,441)    |
| Net OPEB obligation - end of year          | \$ (335,218) |

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

| Fiscal Year<br>Ending | Annual OPEB Cost | Percentage of<br>Annual OPEB Cost<br>Contributed | Obligation   |
|-----------------------|------------------|--------------------------------------------------|--------------|
| December 31, 2014     | \$ 1,256,035     | 79.1%                                            | \$ (335,218) |
| December 31, 2013     | 1,256,035        | 72.7%                                            | (597,441)    |
| December 31, 2012     | 803,567          | 117.7%                                           | (940,587)    |

*Funded Status and Funding Progress:* The funded status of the Health Plan as of December 31, 2013, the date of the last actuarial valuation, follows:

(Rounded to thousands)

|                                                   |              |
|---------------------------------------------------|--------------|
| Actuarial accrued liability (AAL) – Unit Credit   | \$28,375,494 |
| Actuarial value of plan assets                    | 862,223      |
| Unfunded actuarial accrued liability (UAAL)       | 27,513,271   |
| Funded ratio (actuarial value of plan assets/AAL) | 3.0%         |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, present multi-year trend information that shows whether the actuarial value of Health Plan assets in increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial methods and Assumptions:* The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the City and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2013 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 0.24% investment rate of return (net of administrative expenses) and an initial healthcare cost trend rate of 8.0% for medical/prescription drug/unreimbursed medical expenses and 4.0% for dental, reduced by decrements to ultimate rates of 4.2% and 4.0% after 73 years and 4 years, respectively. The vision and long-term care trend rates are 4.0% for all years. All trend rates included a 3.0% inflation assumption. Recalculation of the UAAL occurs each year and the amortization is a level dollar amount on a closed basis. The remaining amortization period at December 31, 2013 was 24.0 years.

## LIFE INSURANCE

Life insurance is provided for full time employees through Standard Life Insurance Company. Full-time employees are covered immediately. All employees have paid life insurance equal to their annual salary up to \$50,000. The City contributed \$93,577 during 2014 for this coverage.

## DEFERRED COMPENSATION

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

## 15. RISK MANAGEMENT

The City maintains consolidated insurance operations in one Insurance Internal Service Fund. The Unemployment, Worker's Compensation, a portion of the Liability and Property, and Medical and Dental Insurance Programs are self insured. This fund is made up of separate sub-funds for Unemployment Compensation, Worker's Compensation, Liability and Property, and Medical and Dental Insurance. There were no significant reductions in insurance coverage and no claims exceeded insurance coverage for the past three years. Following is a table of changes in estimated claims liabilities for 2014 and 2013 as carried in the City's Internal Service Funds:

|                          | Worker's Compensation |              | Medical and Dental |             | Liability    |              | Total        |              |
|--------------------------|-----------------------|--------------|--------------------|-------------|--------------|--------------|--------------|--------------|
|                          | 2014                  | 2013         | 2014               | 2013        | 2014         | 2013         | 2014         | 2013         |
| Claims liabilities, 1/1  | \$ 2,436,279          | \$ 1,757,476 | \$ 670,800         | \$ 753,100  | \$ 1,478,030 | \$ 1,972,012 | \$ 4,585,109 | \$ 4,482,588 |
| Less: Claims paid        | (627,747)             | (613,662)    | (9,390,568)        | (9,560,152) | (404,589)    | (634,850)    | (10,422,904) | (10,808,664) |
| Plus claims and          |                       |              |                    |             |              |              |              |              |
| Changes in estimates     | (18,597)              | 1,292,465    | 9,462,568          | 9,477,852   | 588,850      | 140,868      | 10,032,821   | 10,911,185   |
| Claims Liabilities 12/31 | \$ 1,789,935          | \$ 2,436,279 | \$ 742,800         | \$ 670,800  | \$ 1,662,291 | \$ 1,478,030 | \$ 4,195,026 | \$ 4,585,109 |

**a. UNEMPLOYMENT COMPENSATION**

The City self-insures its unemployment compensation program through the Washington State Employment Security Department. Reserves are set each year based on estimates of employment activity. The City paid \$88,559 in unemployment compensation claims in fiscal year 2014. At December 31, 2014, fund equity was \$740,157.

**b. WORKER'S COMPENSATION**

The City became self-insured for worker's compensation in 1981. Contributions are made from the operating funds based upon actuarially determined costs. The funding and allocations for the worker's compensation program are reviewed by an actuary on an annual basis. The latest actuarial study was made by Fallquist Actuaries, Inc., as of December 31, 2013. The study projected ultimate loss for 2014 of \$1,075,305. At December 31, 2014, incurred but not reported and claims payable were estimated at \$1,789,935. At December 31, 2014 fund equity was \$2,128,253. A contingency reserve of \$112,069 was set up for a worker's compensation claim. The City carries excess workers' compensation insurance coverage with a private carrier for losses exceeding \$500,000 per occurrence to a maximum indemnity in accordance with statutory limits.

**c. LIABILITY**

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

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

At December 31, 2014, the City booked a liability for open and incurred but not reported claims to equal estimated outstanding claims liability of \$1,662,291. The fund had sufficient equity to cover projected losses over the amount booked at December 31, 2014.

At December 31, 2014, fund equity was \$2,503,777. In 2014, the City expensed \$1,543,323 for its liability claims and insurance coverage.

**d. PROPERTY**

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

At December 31, 2014 fund equity was \$236,645. In 2014, the City expensed \$508,423 for its property claims and insurance coverage.

**e. MEDICAL AND DENTAL**

The City is self insured for three medical plans administered by Premera Blue Cross, two dental plans administered by Washington Dental Service (WDS), and a vision plan administered by Vision Service Plan (VSP). Claims exceeding \$175,000 per occurrence are covered by a stop loss policy.

Group Health is offered as a Health Maintenance Organization (HMO) additional plan. The 100% Preferred Provider plan provides comprehensive benefits with co-pays, the 80/20 Preferred Provider plan is a deductible plan with co-insurance, and the Health Savings Account (HSA) plan is a high deductible plan with a HSA attached. The two dental plans offered by Delta Dental are both Preferred Provider Plans with different maximums depending on the plan enrolled. In 2014, Premera Blue Cross covered approximately 95 percent of the employees for a cost of \$8,577,676. The City authorizes an actuarial study every year to determine the fund's actuarial soundness and the impact on future rates. The most recent study was completed as of August 9, 2013 for fiscal year 2014. The City's incurred but not reported claims liabilities increased from \$705,200 as of December 31, 2013 to \$780,700 as of December 31, 2014. These amounts include the estimated IBNR for LEOFF1 Retirees of \$34,400 as of December 31, 2013 and \$37,900 as of December 31, 2014.

Group Health Cooperative provided health care to approximately five percent of the employees for 2014 premiums of \$429,337.

The fund's net position decreased by \$162,811 to \$7,057,627 at December 31, 2014. In 2014, the City's contribution rate was sufficient to provide reserves as recommended by the actuary.

#### f. FINANCIAL HIGHLIGHTS

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

|                                             | Unemployment<br>Compensation | Worker's<br>Compensation | Medical<br>and Dental | Liability          | Property          | Total               |
|---------------------------------------------|------------------------------|--------------------------|-----------------------|--------------------|-------------------|---------------------|
| <b>BALANCE SHEET</b>                        |                              |                          |                       |                    |                   |                     |
| <b>ASSETS</b>                               |                              |                          |                       |                    |                   |                     |
| Cash and cash equivalents                   | \$ 742,259                   | \$ 2,184,998             | \$5,305,852           | \$3,156,789        | \$ (5,416)        | \$11,384,482        |
| Other investments                           | -                            | 254,874                  | -                     | -                  | -                 | 254,874             |
| Receivables:                                |                              |                          |                       |                    |                   |                     |
| Accounts                                    | -                            | -                        | 179                   | -                  | -                 | 179                 |
| Notes                                       | -                            | -                        | 2,339,411             | -                  | -                 | 2,339,411           |
| Accrued interest                            | -                            | 51                       | -                     | -                  | -                 | 51                  |
| Interfund loans receivable                  | -                            | 1,500,000                | 500,000               | 1,000,000          | -                 | 3,000,000           |
| Prepaid expenses                            | 233                          | -                        | 4,330                 | 31,598             | 244,395           | 280,556             |
| <b>TOTAL ASSETS</b>                         | <b>\$ 742,492</b>            | <b>\$ 3,939,923</b>      | <b>\$8,149,772</b>    | <b>\$4,188,387</b> | <b>\$ 238,979</b> | <b>\$17,259,553</b> |
| <b>LIABILITIES</b>                          |                              |                          |                       |                    |                   |                     |
| Current:                                    |                              |                          |                       |                    |                   |                     |
| Vouchers Payable                            | \$ -                         | \$ 2,004                 | \$ 290,507            | \$ 12,044          | \$ -              | \$ 304,555          |
| Accrued expenses                            | 140                          | 1,800,885                | 758,783               | 1,662,925          | 139               | 4,222,872           |
| Compensated absences - current              | 2,195                        | 8,781                    | 12,247                | 9,641              | 2,195             | 35,059              |
| Long-term:                                  |                              |                          |                       |                    |                   |                     |
| Compensated absences                        | -                            | -                        | 30,608                | -                  | -                 | 30,608              |
| <b>TOTAL LIABILITIES</b>                    | <b>2,335</b>                 | <b>1,811,670</b>         | <b>1,092,145</b>      | <b>1,684,610</b>   | <b>2,334</b>      | <b>4,593,094</b>    |
| <b>NET POSITION</b>                         | <b>740,157</b>               | <b>2,128,253</b>         | <b>7,057,627</b>      | <b>2,503,777</b>   | <b>236,645</b>    | <b>12,666,459</b>   |
| <b>TOTAL LIABILITIES &amp; NET POSITION</b> | <b>\$ 742,492</b>            | <b>\$ 3,939,923</b>      | <b>\$8,149,772</b>    | <b>\$4,188,387</b> | <b>\$ 238,979</b> | <b>\$17,259,553</b> |
| <b>INCOME STATEMENT</b>                     |                              |                          |                       |                    |                   |                     |
| OPERATING REVENUES                          | \$ 379,716                   | \$ 1,503,023             | \$9,637,438           | \$ 539,259         | \$ 568,080        | \$12,627,516        |
| OPERATING EXPENSES                          | 112,106                      | 80,345                   | 9,845,908             | 1,543,323          | 508,423           | 12,090,105          |
| OPERATING INCOME                            | 267,610                      | 1,422,678                | (208,470)             | (1,004,064)        | 59,657            | 537,411             |
| NON-OPERATING REVENUES                      |                              |                          |                       |                    |                   |                     |
| (EXPENSES)                                  | 640                          | 3,174                    | 45,659                | 4,710              | 27                | 54,210              |
| TRANSFERS IN/(OUT)                          | -                            | -                        | -                     | -                  | -                 | -                   |
| NET INCOME                                  | 268,250                      | 1,425,852                | (162,811)             | (999,354)          | 59,684            | 591,621             |
| NET POSITION 1/1                            | 471,907                      | 702,401                  | 7,220,438             | 3,503,131          | 176,961           | 12,074,838          |
| NET POSITION 12/31                          | \$ 740,157                   | \$ 2,128,253             | \$7,057,627           | \$2,503,777        | \$ 236,645        | \$12,666,459        |

**16. JOINT VENTURE**

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

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

During 2000, the Valley Communications Center Development Authority was created to issue \$12,758,000 in General Obligation Bonds to finance construction, equipment, and land for a new facility opened in 2002. Each of the five participating cities is responsible for one-fifth of the debt obligation, which came to \$2,551,600. On March 5, 2010, Valley Communications refunded the bonds in the amount of \$5,325,000 to mature in 2015 like the original issue. With the 2010 refunding, the City reduced its portion of the 2000 bond debt by \$4,000. The five participating cities pay the debt service costs through Valley Communications Development Authority. In 2014, the City paid \$212,000 towards this debt. The new balance of the City of Kent's obligation was \$220,000 at December 31, 2014.

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

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

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

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

The Interlocal Agreement calls for allocation of prorated financial participation among the five participating cities based on the percentage of estimated dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls for the current year ended December 31. Percentages are applied to the

current approved budget, less revenue from all other sources.

In 2014 the cost distribution for the five participating cities was as follows:

| City        | Dispatchable Calls | Percent of Total |
|-------------|--------------------|------------------|
| Kent        | 104,448            | 28.15%           |
| Renton      | 75,345             | 20.31%           |
| Auburn      | 82,276             | 22.17%           |
| Tukwila     | 32,383             | 8.73%            |
| Federal Way | 76,602             | 20.64%           |
| Totals      | 371,054            | 100.00%          |

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

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

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

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

|                     | Kent         | Renton       | Auburn       | Tukwila      | Federal Way  | Total         |
|---------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Percent of Equity   | 30.67%       | 21.79%       | 20.69%       | 12.11%       | 14.74%       | 100.00%       |
| Equity 1/1/14       | \$ 7,378,791 | \$ 5,240,607 | \$ 4,959,646 | \$ 2,927,158 | \$ 3,508,470 | \$ 24,014,672 |
| Current Yr Increase | 151,995      | 109,645      | 119,731      | 47,125       | 111,474      | 539,970       |
| Equity 12/31/13     | \$ 7,530,786 | \$ 5,350,252 | \$ 5,079,377 | \$ 2,974,283 | \$ 3,619,944 | \$ 24,554,642 |

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

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

## 17. COMPONENT UNITS

### City of Kent Special Events Center Public Facilities District

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

On February 29, 2008, the PFD issued bonds in the amount of \$63,280,000. For the fiscal year ended December 31, 2014, the PFD generated \$784,638 in revenue and had net position of \$(78,311,985).

Per GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 61, the City has chosen to include this entity in the City's financial statements utilizing the discrete presentation

method. A copy of the City of Kent's Special Events Center Public Facilities District's financial statements is available at the City of Kent located at 220 – 4<sup>th</sup> Avenue South, Kent, WA 98032.

## 18. CONTINGENCIES AND LITIGATIONS

In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging that the City is responsible for damages incurred by third parties. The City believes the ultimate liability, if any, will not have a material adverse effect on the City's financial position, changes in financial position, or liquidity. Please refer to Note 15 – *Risk Management*.

The City participates in a number of federal and state assisted programs. These programs are subject to audit and adjustment by the grantor or their representatives. Such audits could result in requests for reimbursement to the grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

On February 20, 2008, The City entered into a Contingent Loan and Support Agreement with the Kent Public Facilities District, a discretely presented component unit of the City. The agreement was authorized by City Council under Ordinance No. 3863. Under the agreement, in the event that the District is unable to provide for the payment of principal or interest on any bonds issued by the District for the construction of the Kent Special Events Center, the City shall loan to the District the amount necessary to make such timely payment. The District issued \$63,280,000 in bonds in 2008 (see Note 10 – *Long-Term Indebtedness*). The Contingent Loan and Support Agreement remains in effect for the life of bonds. The bonds mature annually on December 1 until 2037 with semiannual interest payments. There is \$59,425,000 outstanding on these bonds at December 31, 2014. As of December 31, 2014, the City has loaned the District \$18,493,452 and accrued interest of \$225,845 for a total of \$18,719,297. The City loaned the District \$3,029,824, in 2014. As discussed in Note 5 – *Receivables*, although the City has booked a receivable from the District for the cumulative amounts loaned under the agreement, the City believes that the District will be unable to repay the City and therefore has offset 100 percent of the receivable with an allowance for uncollectibles. The City anticipates that District revenues will continue to fall short of the debt service requirements and the City will continue to make contingent payments on the District's outstanding bonds. In compliance with GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the City has recorded a liability on the government-wide Statement of Net Assets for \$76,809,813, the present value of estimated future payments under the guarantee agreement.

The liability recognized for the financial guarantee at December 31, 2014 is as follows:

| Beginning of year | Increases  | Decreases   | End of Year   |
|-------------------|------------|-------------|---------------|
| \$ 79,640,535     | \$ 199,102 | \$3,029,824 | \$ 76,809,813 |

## 19. COMMITMENTS

As of December 31, 2014, the City had the following budgeted commitments for uncompleted projects:

|                                  |               |
|----------------------------------|---------------|
| Street Capital Projects          | \$ 23,735,207 |
| Parks Capital Projects           | 2,591,982     |
| Miscellaneous Projects           | 5,293,926     |
| Technology Capital Projects      | 1,488,907     |
| Facilities Fund Capital Projects | 1,143,615     |
| Facilities Fund                  | 1,243,301     |
| Water Capital Projects           | 13,179,981    |
| Sewerage Capital Projects        | 22,053,011    |
| Total                            | \$ 70,729,930 |

**20. PRIOR PERIOD ADJUSTMENTS**

During 2014, the City changed the methodology used to charge the water and sewerage funds for a portion of the administrative costs housed in the general fund. During this process, management determined that the water and sewerage funds had been overcharged in past years and were owed a refund of \$2,026,104. During the 2015/2016 biennial budget process, the Council adopted a four year repayment plan. At December 31, 2014, an interfund note was created and prior period adjustments have been done as follows:

|               |               |
|---------------|---------------|
| General Fund  | \$(2,026,104) |
| Water Fund    | 798,144       |
| Sewerage Fund | 1,227,960     |

An error was discovered in the calculation of the Net OBEB obligation due to a misunderstanding on the City's part, miscalculation in the actuarial report as of December 31, 2013, and the December 31, 2013 actuarial report not being received by the City in time for the fiscal year 2013 CAFR. The cumulative effect of these errors is a \$1,709,686 prior period adjustment to net position of the governmental activities on the government-wide Statement of Activities.

With the implementation of GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the City reported a prior period adjustment on its government-wide financial statements for December 31, 2013 present value of anticipated payments under the Contingent Loan Agreement with the Kent Public Facilities District (see Note 18 *Contingencies and Litigation*).

|                                        |                            |
|----------------------------------------|----------------------------|
|                                        | Governmental<br>Activities |
| Liability for Contingent Loan Payments | \$ (79,640,535)            |

With the implementation of GASB Statement No. 67 *Financial Reporting for Pension Plans*, the City reported a prior period adjustment in the Firemen's Relief & Pension Trust Fund for the effect of the net pension.

**Discretely Presented Component Unit – Special Event Center**

Under the contingent loan agreement (discussed further in Note 18) between the City and the Kent Public Facilities District, a discretely presented component unit of the City, payments made by the City towards the District debt are to be treated as loans. Since the City considers these loans to be uncollectible, it had not booked loans receivable (City) or loans payable (District). During the audit of the 2013 District financial statements, the State Auditors required that the note payable be booked on the District's books. Since it was not booked on the City's 2014 financial statements, it is reflected as a prior period adjustment of \$15,463,628 for the component unit in the 2015 government-wide financial statements. See Note 5 for further discussion of the City's side of this transaction.

**21. SUBSEQUENT EVENTS**

On April 6, 2015 the City received an upgrade on the General Obligation Bonds and Kent Public Facilities District Bonds from AA- to AA from Standard & Poor's Rating Service. Also on April 17, 2015 the City received an upgrade from Baa2 to A2 on the General Obligation Bonds and Local Improvement District Bonds from Moody's Investors Service.

**RETIREMENT HEALTH CARE BENEFITS -- LEOFF 1 RETIREMENT SYSTEM**  
**Schedule of Funding Progress**  
**As of December 31, 2013 \***

| <b>Fiscal Year<br/>Ending</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial Accrued<br/>Liabilities (AAL)<br/>Entry Age<br/>(b)</b> | <b>Unfunded<br/>Actuarial Accrued<br/>Liabilities (UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Covered<br/>Payroll <sup>1</sup><br/>(c)</b> | <b>UAAL as a<br/>Percentage of<br/>Covered Payroll <sup>1</sup><br/>[(b-a)/c]</b> |
|-------------------------------|--------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------|
| December 31, 2007             | \$ 251,263                                       | \$ 8,609,653                                                         | \$ 8,358,390                                                           | 2.9%                              | \$ 113,000                                      | 7397%                                                                             |
| December 31, 2008             | 607,604                                          | 8,609,653                                                            | 8,002,049                                                              | 7.1%                              | 123,981                                         | 6454%                                                                             |
| December 31, 2009             | 734,159                                          | 8,609,653                                                            | 7,875,494                                                              | 8.5%                              | 124,404                                         | 6331%                                                                             |
| December 31, 2010             | 647,099                                          | 20,959,291                                                           | 20,312,192                                                             | 3.1%                              | 119,207                                         | 17039%                                                                            |
| December 31, 2011             | 527,368                                          | 20,201,844                                                           | 19,674,476                                                             | 2.6%                              | 98,750                                          | 19924%                                                                            |
| December 31, 2012             | 699,508                                          | 29,732,103                                                           | 29,032,595                                                             | 2.4%                              | 21,250                                          | 136624%                                                                           |
| December 31, 2013             | 862,223                                          | 28,375,494                                                           | 27,513,271                                                             | 3.0%                              | -                                               | N/A                                                                               |

\* Most recent actuarial study

<sup>1</sup> The last employee eligible for LEOFF 1 benefits retired in fiscal year 2012

RSI continued on following pages

**Firefighters' Pension Fund****GASB Statement No. 67 Schedule of Employer Contributions****Last 10 Fiscal Years**

|                                     | <b>Fiscal Year Ending December 31</b> |             |             |
|-------------------------------------|---------------------------------------|-------------|-------------|
|                                     | <b>2014</b>                           | <b>2013</b> | <b>2012</b> |
| Actuarially determined contribution | \$ (47,101)                           | \$ (41,988) | \$ (59,033) |
| Actual employer contribution *      | (47,101)                              | (41,988)    | (59,033)    |
| Contribution deficiency (excess)    | -                                     | -           | -           |

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

Firefighters' retiree medical and long-term care benefits may be paid from the Firefighters' Pension Fund. As noted above, payments for retiree medical and long-term care benefits are subtracted from other contributions, leaving a negative total contribution. The City has been budgeting a portion of the excess plan assets to pay these benefits based on an actuarially determined amount. The City limits the amount of retiree medical and long-term care benefits paid from the Fund to the budgeted amounts, and thus the actual employer contributions are equal to the actuarially determined contributions in the table above.

Note: Since this is a closed plan covering retirees, there is no covered payroll, therefore covered payroll and contributions as a % of covered payroll are not applicable and are not shown in this table. [GASB Statement No. 67 Implementation Guide, question 57]

**Firefighters' Pension Fund****GASB Statement No. 67 Money-Weighted Rate of Return**

| <b>Fiscal Year Ending December 31</b> | <b>Net<br/>Weighted Rate of Return</b> |
|---------------------------------------|----------------------------------------|
| 2014                                  | 1.96%                                  |

Note: The Plan implemented GASB Statement No. 67 in fiscal year 2014. Information is not available for prior years.

| Fiscal Year Ended December 31 |             |             |             |             |              |              |
|-------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| 2011                          | 2010        | 2009        | 2008        | 2007        | 2006         | 2005         |
| \$ (48,662)                   | \$ (64,151) | \$ (62,265) | \$ (59,543) | \$ (70,193) | \$ (114,942) | \$ (124,739) |
| (48,662)                      | (64,151)    | (62,265)    | (59,543)    | (70,193)    | (114,942)    | (124,739)    |
| -                             | -           | -           | -           | -           | -            | -            |

## Firefighters' Pension Fund

## GASB Statement No. 67 - Schedules of Changes in Net Pension Liability and Related Ratios

(Thousands \$)

|                                                              | Fiscal Year Ending December 31<br>2014 |
|--------------------------------------------------------------|----------------------------------------|
| <b>Total Pension Liability</b>                               |                                        |
| Service cost                                                 | \$ -                                   |
| Interest on total pension liability                          | 77                                     |
| Effect of plan changes                                       | -                                      |
| Effect of economic/demographic gains (losses)                | -                                      |
| Effect of assumption changes or inputs                       | 67                                     |
| Benefit payments                                             | (143)                                  |
| Net change in total pension liability                        | 1                                      |
| <br>Total net pension liability - beginning                  | <br>2,220                              |
| Total net pension liability - ending (a)                     | \$ 2,221                               |
| <br><b>Fiduciary Net Position</b>                            |                                        |
| Employer contributions                                       | \$ -                                   |
| Contribution for state fire insurance premium tax            | 179                                    |
| Investment income net of investment expenses                 | 55                                     |
| Benefit payments                                             | (144)                                  |
| Medical payments from fund                                   | (226)                                  |
| Administrative expenses                                      | (8)                                    |
| Net change in fiduciary net position                         | (144)                                  |
| <br>Fiduciary net position - beginning                       | <br>2,881                              |
| Fiduciary net position - ending (b)                          | \$ 2,737                               |
| <br>Net pension liability (asset) - ending = (a) - (b)       | <br>\$ (516)                           |
| <br>Fiduciary net position as a % of total pension liability | <br>123.23%                            |

Note: The Plan implemented GASB Statement No. 67 in fiscal year 2014. Information is not available for prior years.

Note: Since this is a closed plan covering retirees, there is no covered payroll, therefore covered payroll and contributions as a % of covered payroll are not applicable and are not shown in this table. [GASB Statement No. 67 Implementation Guide, question 57]

**CITY OF KENT, WASHINGTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2014

| Federal Agency Name/Pass-Through Agency Name                                                                          | Federal Program Name                                                                                                                    | CFDA Number      | Other I.D. No.  | Expenditures             |                    |                  | Note Ref |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|--------------------------|--------------------|------------------|----------|
|                                                                                                                       |                                                                                                                                         |                  |                 | From Pass-Through Awards | From Direct Awards | Total            |          |
| Department of Education - Office of Elementary and Secondary Education<br>Pass-through WA Alliance for Better Schools | Twenty-First Century Community Learning Centers                                                                                         | 84.287           | NA              | 1,438                    |                    | 1,438            | 2        |
| Department of Health & Human Services<br>Substance Abuse & Mental Health Services Administration                      | Drug-Free Communities Support Program Grants<br>Substance Abuse & Mental Health Services_Projects of Regional and National Significance | 93.276<br>93.243 | NA<br>NA        |                          | 41,875<br>32,306   | 41,875<br>32,306 | 2<br>2   |
|                                                                                                                       | Total Department of Health & Human Services                                                                                             |                  |                 | -                        | 74,181             | 74,181           |          |
| Department of Housing and Urban Development<br>Office of Community Planning and Development                           | Community Development Block Grants/Entitlement Grants                                                                                   | 14.218           | B-13-MC-53-0017 |                          | 199,062            | 199,062          | 2        |
|                                                                                                                       | Total CFDA #14.28 and Department of Housing and Urban Development                                                                       | 14.218           | B-14-MC-53-0017 |                          | 636,714            | 636,714          | 2, 3     |
|                                                                                                                       |                                                                                                                                         |                  |                 | -                        | 835,776            | 835,776          |          |
| Department of Homeland Security<br>Pass through WA State Emergency Management                                         | Emergency Management Performance Grants                                                                                                 | 97.042           | NA              | 108,111                  |                    | 108,111          | 2, 3     |
|                                                                                                                       | Total Department of Homeland Security                                                                                                   |                  |                 | 108,111                  | -                  | 108,111          |          |
| Department of Justice/ Bureau of Justice Assistance                                                                   | Bulletproof Vest Partnership Program                                                                                                    | 16.607           | AP#03018548     |                          | 12,734             | 12,734           | 2        |
|                                                                                                                       | State Criminal Alien Assistance Program                                                                                                 | 16.606           | 2012-2013       |                          | 3,980              | 3,980            | 2        |
|                                                                                                                       | Edward Byrne Memorial Justice Assistance Grant Program                                                                                  | 16.738           | NA              |                          | 1,021              | 1,021            | 2        |
| Pass through Seattle Police Department                                                                                | Edward Byrne Memorial Justice Assistance Grant Program                                                                                  | 16.738           | NA              | 44,726                   |                    | 44,726           | 2        |
|                                                                                                                       | Total JAG Program cluster                                                                                                               |                  |                 | 44,726                   | 1,021              | 45,747           |          |
|                                                                                                                       | Total Department of Justice                                                                                                             |                  |                 | 44,726                   | 17,735             | 62,461           |          |
| Department of Transportation/Federal Highway Administration (FHWA) Pass through WA Department of Transportation       | Highway Planning and Construction                                                                                                       | 20.205           | HSIP-0515(014)  | 44,063                   |                    | 44,063           | 2        |
|                                                                                                                       | Recreational Trails Program                                                                                                             | 20.219           | CM-0615(008)    | 205,280                  |                    | 205,280          | 2        |
|                                                                                                                       | Total Highway Planning & Construction cluster                                                                                           |                  |                 | 249,343                  | -                  | 249,343          |          |
| National Highway Traffic Safety Administration (NHTSA)<br>Pass through WA Department of Transportation                | State and Community Highway Safety                                                                                                      | 20.600           | HLP-BP11(001)   | 69,900                   |                    | 69,900           | 2        |
|                                                                                                                       | Total Department of Transportation                                                                                                      |                  |                 | 319,243                  | -                  | 319,243          |          |
| National Endowment for the Arts<br>Pass through Western States Arts Foundation                                        | Promotion of the Arts_Partnership Agreements                                                                                            | 45.025           | NA              | 11,600                   |                    | 11,600           | 2        |
|                                                                                                                       | Total National Endowment for the Arts                                                                                                   |                  |                 | 11,600                   | -                  | 11,600           |          |
|                                                                                                                       | <b>TOTAL FEDERAL AWARDS EXPENDED</b>                                                                                                    |                  |                 | 485,118                  | 927,692            | 1,412,810        |          |

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2014**

**NOTE 1 - BASIS OF ACCOUNTING**

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

**NOTE 2 - PROGRAM COSTS**

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

**NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS**

Included in the total amount expended for the Community Development Block Grants program is \$159,657 that was passed through to a subrecipient that administered its own project.

Included in the total amount expended for the Emergency Management Performance Grants program is \$108,111 that was passed through to a subrecipient that administered its own project.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

| Contact information for the State Auditor's Office |                                                                                                              |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
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| <b>Public Records requests</b>                     | (360) 725-5617                                                                                               |
| <b>Main telephone</b>                              | (360) 902-0370                                                                                               |
| <b>Toll-free Citizen Hotline</b>                   | (866) 902-3900                                                                                               |
| <b>Website</b>                                     | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                                                           |