



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

City of Tumwater

Thurston County

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

Published December 14, 2015

Report No. 1015753





Washington State Auditor's Office

December 14, 2015

Mayor and City Council
City of Tumwater
Tumwater, Washington

Report on Financial Statements

Please find attached our report on the City of Tumwater's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**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 Tumwater
Thurston County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Tumwater
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tumwater, Thurston 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 December 8, 2015.

The City has omitted the management's discussion and analysis information, and information on postemployment benefits other than pensions, that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated December 8, 2015.

COMPLIANCE AND OTHER MATTERS

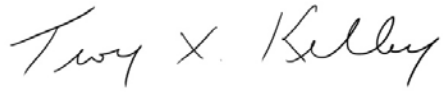
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Tumwater Thurston County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Tumwater
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tumwater, Thurston 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 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 47 through 48 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.

Management has omitted the management's discussion and analysis information, and information on postemployment benefits other than pensions, that governmental accounting principles generally accepted in the United States of America require to be presented to

supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

FINANCIAL SECTION

**City of Tumwater
Thurston County
January 1, 2014 through December 31, 2014**

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

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

Statement of Net Position – Proprietary Funds – 2014

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

Combined Statement of Cash Flows – All Proprietary Funds – 2014

Statement of Fiduciary Net Position – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Revenues, Expenditures and Changes in Fund Balance – Development Fees
Special Revenue Fund – Budget and Actual – 2014

CITY OF TUMWATER

Statement of Net Position - Entity-Wide

December 31, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash & Cash Equivalents	\$ 21,327,739	\$ 11,917,980	\$ 33,245,719
<u>Receivables</u>			
Taxes	776,466	-	776,466
Accounts	85,776	1,252,995	1,338,772
Internal Balances	-	163,196	163,196
Due From Other Governments	668,195	501,886	1,170,081
Inventories	12,049	131,262	143,311
Joint Venture	294,160	-	294,160
<u>Capital Assets (Note 1-D-6):</u>			
Historical Artifacts, Land, and Construction in Progress	81,915,904	6,016,899	87,932,803
Other Capital Assets, Net of Depreciation	60,702,840	53,178,129	113,880,969
<u>Restricted Assets</u>			
Cash & Equivalents	23,050	478,006	501,056
Investments	-	102,012	102,012
TOTAL ASSETS	\$ 165,806,179	\$ 73,742,366	\$ 239,548,545
DEFERRED OUTFLOWS OF RESOURCES			
Deferred cost of Refunding	\$ 40,404	\$ 97,769	138,173
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 40,404	\$ 97,769	\$ 138,173
LIABILITIES			
Vouchers Payable	\$ 806,697	\$ 186,714	\$ 993,411
Payroll Liability Payable	932,005	202,778	1,134,783
Internal Balances	163,196	-	163,196
Due to other Governments	-	878,417	878,417
Matured Interest Payable	16,562	53,773	70,335
Compensated Absences Liability	1,269,246	258,004	1,527,250
Deposits Payable	23,050	-	23,050
<u>Long-Term Liabilities (Note 1-D-9)</u>			
Due Within One Year	600,165	573,527	1,173,692
Due in More Than One Year, Net of Premiums/Discounts	6,109,071	3,077,043	9,186,114
TOTAL LIABILITIES	\$ 9,919,992	\$ 5,230,257	\$ 15,150,249
NET POSITION:			
Net Investment in Capital Assets	\$ 137,721,919	\$ 55,642,227	\$ 193,364,146
<u>Restricted for:</u>			
Capital Projects	6,216,133	-	6,216,133
Debt Service	105,706	478,006	583,712
Public Safety	1,578,592	-	1,578,592
Other Purposes	340,506	-	340,506
Unrestricted Net Position	9,963,736	12,489,645	22,453,381
TOTAL NET POSITION	\$ 155,926,592	\$ 68,609,878	\$ 224,536,470

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Activities

December 31, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services, Fees, Fines, & Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Programs						
Governmental Activities:						
General Government	\$ 5,469,076	\$ 897,677	\$ 238,222	\$ -	(4,333,177)	\$ (4,333,177)
Public Safety - Police	5,583,881	231,710	37,688	-	(5,314,483)	(5,314,483)
Public Safety - Fire	5,968,860	2,659,135	179,271	-	(3,130,453)	(3,130,453)
Public Works	3,664,881	1,173	276,589	1,182,748	(2,204,372)	(2,204,372)
Economic Environment	1,739,044	1,065,094	131,513	-	(542,438)	(542,438)
Culture & History	205,965	265	-	-	(205,700)	(205,700)
Parks & Recreations	1,471,936	151,109	189,391	453,097	(678,338)	(678,338)
Interest on Long-Term Debt	189,902	-	-	-	(189,902)	(189,902)
Total Governmental Activities (See Note 1)	\$ 24,293,545	\$ 5,006,163	\$ 1,052,674	\$ 1,635,845	\$ (16,598,864)	\$ (16,598,864)
Business-Type Activities:						
Water	\$ 3,658,277	\$ 4,124,457	\$ 123,432	\$ 840,989	\$	\$ 1,430,600
Sewer	6,505,441	6,233,264	800	589,652	318,276	318,276
Storm Drain	1,583,131	1,786,023	665,536	9,800	878,228	878,228
Golf Course	1,438,998	815,130	53,948	-	(569,920)	(569,920)
Total Business-Type Activities	\$ 13,185,847	\$ 12,958,873	\$ 843,716	\$ 1,440,441	\$ -	\$ 2,057,183
Total Governmental and Business-Type Activities	\$ 37,479,392	\$ 17,965,036	\$ 1,896,390	\$ 3,076,286	\$ (16,598,864)	\$ (14,541,680)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes					\$ 6,686,934	\$ 6,686,934
Property Taxes, Levied for Debt Service					221,257	221,257
Business and Franchise Licenses and Taxes					10,885,942	10,885,942
Unrestricted Investment Earnings					28,683	41,233
Miscellaneous					135,749	135,749
Transfers					(825,235)	0
Total General Revenues and Transfers					\$ 17,133,331	\$ 17,971,115
Changes in Net Position					\$ 534,467	\$ 3,429,435
Net Position - Beginning					\$ 155,392,125	\$ 221,107,035
Position - Ending					\$ 155,926,592	\$ 224,536,470

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Balance Sheet - Governmental Funds

December 31, 2014

	MAJOR GOVERNMENTAL FUNDS				OTHER	TOTAL
	GENERAL	DEVELOPMENT	DEBT SERVICE	CAPITAL	GOVERNMENTAL	GOVERNMENTAL
	FUND	FEES FUND	FUND	PROJECTS FUND	FUNDS	FUNDS
ASSETS						
Cash & Cash Equivalents	\$ 7,831,965	\$ 6,216,133	\$ 103,658	\$ 3,816,446	\$ 333,629	\$ 18,301,830
Cash With Trustee	23,050	-	-	-	-	23,050
Receivables						
Taxes	733,580	-	2,048	26,614	14,224	776,466
Accounts	31,470	-	-	-	2,868	34,338
Interest	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-
Due From Other Governments	565,104	-	-	103,090	-	668,195
TOTAL ASSETS	\$ 9,185,169	\$ 6,216,133	\$ 105,706	\$ 3,946,150	\$ 350,721	\$ 19,803,879
LIABILITIES						
Vouchers Payable	\$ 342,225	\$ -	\$ -	\$ 242,085	\$ 33,265	\$ 617,575
Payroll Liability Payable	895,685	-	-	10,969	-	906,653
Interfund Loans Payable	-	-	-	163,196	-	163,196
Deposits Payable	23,050	-	-	-	-	23,050
TOTAL LIABILITIES	\$ 1,260,960	\$ -	\$ -	\$ 416,249	\$ 33,265	\$ 1,710,474
FUND BALANCES						
Fund Balance:						
Restricted	1,601,642	6,216,133	105,706	-	317,456	8,240,937
Committed	382,798	-	-	3,529,901	-	3,912,699
Assigned	588,083	-	-	-	-	588,083
Unassigned	5,351,686	-	-	-	-	5,351,686
TOTAL FUND BALANCE	\$ 7,924,210	\$ 6,216,133	\$ 105,706	\$ 3,529,901	\$ 317,456	\$ 18,093,405
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,185,169	\$ 6,216,133	\$ 105,706	\$ 3,946,150	\$ 350,721	\$ 19,803,879

Amounts reported for governmental activities in the Statement of Net Assets differ for the following reasons:

TOTAL OF FUND BALANCES FOR ALL GOVERNMENTAL FUNDS (THIS STATEMENT)	\$ 18,093,405
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 139,652,622
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	\$ 294,160
An internal service fund is used to charge for the use of heavy equipment, vehicles, and electronic equipment to the individual funds. The net assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.	\$ 5,777,614
Liabilities, including bonds and other debt instruments plus interest, are not due and payable in the current period and therefore are not reported in the funds.	\$ (7,891,210)
	\$ 155,926,592

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

December 31, 2014

	MAJOR GOVERNMENTAL FUNDS				OTHER GOVERNMENTAL FUNDS		TOTAL GOVERNMENTAL FUNDS	
	GENERAL FUND	DEVELOPMENT FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND				
REVENUES								
Taxes	\$ 15,065,850	\$ -	\$ 229,303	\$ 1,794,385	\$ 230,551	\$	\$	17,320,089
Licenses & Permits	1,135,718	-	-	-	-			1,135,718
Intergovernmental	3,497,715	-	-	530,785	-			4,028,500
Charges for Services	1,524,941	1,268,911	-	-	18,045			2,811,897
Fines & Forfeitures	227,832	-	-	-	-			227,832
Miscellaneous	191,767	5,341	442	57,289	151			254,989
TOTAL REVENUES	\$ 21,643,822	\$ 1,274,251	\$ 229,744	\$ 2,382,459	\$ 248,748	\$	\$	25,779,025
EXPENDITURES								
<u>Current:</u>								
General Government	\$ 5,046,108	\$ -	\$ -	\$ -	\$ -	\$	\$	5,046,108
Public Safety - Police	5,063,223	-	-	-	(4,015)			5,059,208
Public Safety - Fire	5,835,667	-	-	-	-			5,835,667
Public Works	1,797,117	-	-	-	-			1,797,117
Economic Environment	1,614,347	-	-	-	106,602			1,720,949
Culture & History	27,136	-	-	-	47,280			74,416
Parks & Recreation	1,230,631	-	-	-	-			1,230,631
<u>Debt Service:</u>								
Principal Retirement	\$ -	\$ -	\$ 593,436	\$ -	\$ -	\$	\$	593,436
Interest & Fiscal Charges	-	-	202,921	244	-			203,165
<u>Capital Outlay</u>								
General Government	\$ -	\$ -	\$ -	\$ 619,354	\$ -	\$	\$	619,354
Economic Environment	-	-	-	18,033	-			18,033
Public Safety - Police	-	-	-	600,895	-			600,895
Public Works	-	-	-	1,005,159	-			1,005,159
Culture & History	-	-	-	58,128	-			58,128
Parks & Recreation	-	-	-	218,593	-			218,593
TOTAL EXPENDITURES	\$ 20,614,229	\$ -	\$ 796,357	\$ 2,520,407	\$ 149,868	\$	\$	24,080,859
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,029,594	\$ 1,274,251	\$ (566,612)	\$ (137,948)	\$ 98,880	\$	\$	1,698,165
OTHER FINANCING SOURCES (USES)								
Transfers In	\$ 458,430	\$ -	\$ 607,961	\$ 956,250	\$ -	\$	\$	2,022,641
Transfers Out	(1,326,109)	(296,227)	-	(549,713)	(26,109)			(2,198,157)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (867,679)	\$ (296,227)	\$ 607,961	\$ 406,538	\$ (26,109)	\$	\$	(175,516)
NET CHANGE IN FUND BALANCES	\$ 161,915	\$ 978,024	\$ 41,349	\$ 268,590	\$ 72,771	\$	\$	1,522,649
PLUS: FUND BALANCES - BEGINNING	\$ 7,762,294	\$ 5,238,108	\$ 64,358	\$ 3,261,311	\$ 244,685	\$	\$	16,570,756
FUND BALANCES - ENDING	\$ 7,924,210	\$ 6,216,133	\$ 105,706	\$ 3,529,901	\$ 317,456	\$	\$	18,093,405

Amounts reported for governmental activities in the Statement of Activities differ for the following reasons:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (THIS STATEMENT) \$ 1,522,649

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. In addition, it includes the net effect of miscellaneous transactions involving capital assets as a change in net assets for the current period (i.e. sales, trades, donations, and changes in equity in a joint venture). These changes are reported as Miscellaneous General Government Income in the Statement of Activities.

\$ (649,076)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund when deferred. This is the amount by which increases in these deferred revenues exceed reductions. Property tax and sales tax that is deferred is included in General Revenues under the appropriate classifications. Investment Interest Income is included in the General Revenues under Unrestricted Investment Earnings.

\$ (775,497)

Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceed proceeds in the current period. Also included is matured interest payable on bonds reported in the Statement of Activity that does not require the use of current resources and therefore is not reported as expenditures in governmental funds.

\$ 261,535

An internal service fund is used to charge costs for the use of heavy equipment, vehicles, and electronic equipment to individual funds. The net revenue of the internal service fund is included in the governmental activities programs in the Statement of Activities as a reduction of expenses.

\$ 174,855

CHANGE IN NET ASSETS FOR GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES \$ 534,467

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER
Statement of Net Position - Proprietary Funds
December 31, 2014

	MAJOR ENTERPRISE FUNDS *		TOTAL	INTERNAL
	UTILITIES	GOLF COURSE	ENTERPRISE	SERVICE
	FUND	FUND	FUNDS	FUNDS
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash & Cash Equivalents	\$ 11,798,183	\$ 119,796	\$ 11,917,980	\$ 3,025,909
<u>Receivables</u>				
Accounts	1,242,156	10,840	1,252,995	51,438
Interfund Loan Receivable	1,673,928	-	1,673,928	-
Due From Other Governments	501,886	-	501,886	-
Inventories	50,539	80,724	131,262	12,049
<u>NON-CURRENT ASSETS</u>				
Fixed Assets, Net	55,809,150	3,385,878	59,195,029	2,966,122
<u>Restricted Assets</u>	-	-	-	-
Cash & Equivalents	478,006	-	478,006	-
Investments (Market Value)	102,012	-	102,012	-
TOTAL ASSETS	\$ 71,655,861	\$ 3,597,238	\$ 75,253,098	\$ 6,055,519
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred cost of Refunding	\$ 26,528	\$ 71,241	\$ 97,769	\$ -
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 26,528	\$ 71,241	\$ 97,769	\$ -
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Vouchers Payable	\$ 179,547	\$ 23,232	\$ 202,778	\$ 189,123
Payroll Liability Payable	157,992	28,723	186,714	25,351
Interfund Loans Payable	-	1,510,732	1,510,732	-
Due to other Governments	878,417	-	878,417	-
Matured Interest Payable	1,580	52,194	53,773	-
Compensated Absences Payable	224,794	33,210	258,004	63,430
Current Portion of Long Term Debt	274,730	298,797	573,527	-
<u>NON-CURRENT LIABILITIES</u>				
Long Term Liabilities (Net of Amortized Discount)	134,991	2,942,053	3,077,043	-
TOTAL LIABILITIES	\$ 1,852,050	\$ 4,888,939	\$ 6,740,989	\$ 277,904
<u>NET POSITION</u>				
Net Investment in Capital Assets	\$ 55,425,958	\$ 216,269	\$ 55,642,227	\$ 2,966,122
Restricted for Debt Service	478,006	-	478,006	-
Unrestricted	13,926,375	(1,436,730)	12,489,645	2,811,492
TOTAL NET POSITION	\$ 69,830,339	\$ (1,220,461)	\$ 68,609,878	\$ 5,777,614

* ALL ENTERPRISE FUNDS ARE MAJOR FUNDS

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds

December 31, 2014

	MAJOR ENTERPRISE FUNDS *			TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
	UTILITIES FUND	GOLF COURSE FUND			
OPERATING REVENUES					
Charges for Services	\$ 12,143,743	\$ 815,130	\$	12,958,873	\$ 2,031,234
Other Operating Revenue	789,767	53,948		843,716	49,104
TOTAL OPERATING REVENUE	\$ 12,933,511	\$ 869,079	\$	13,802,589	\$ 2,080,338
OPERATING EXPENSES					
Operations & Maintenance	7,626,662	933,630		8,560,292	521,211
Administration Overhead	2,098,624	120,878		2,219,502	855,203
Taxes	332,010	3,932		335,941	-
Depreciation & Amortization	1,647,831	277,696		1,925,526	550,668
TOTAL OPERATING EXPENSES	\$ 11,705,126	\$ 1,336,136	\$	13,041,262	\$ 1,927,082
OPERATING INCOME (LOSS)	\$ 1,228,384	\$ (467,057)	\$	761,327	\$ 153,256
NON-OPERATING REVENUE (EXPENSES)					
Interest Income	\$ 12,550	-	\$	12,550	\$ 2,541
Interest Expense	(41,722)	(102,863)		(144,585)	-
Other Income (Expenses)	-	-		-	9,897
TOTAL NON-OPERATING REVENUE (EXPENSES)	\$ (29,172)	\$ (102,863)	\$	(132,035)	\$ 12,438
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	\$ 1,199,212	\$ (569,920)	\$	629,292	\$ 165,694
Capital Contributions	\$ 1,440,441	-	\$	1,440,441	-
Transfers In	212	826,931		827,143	9,161
Transfers Out	-	(1,908)		(1,908)	-
CHANGES IN NET POSITION	\$ 2,639,865	\$ 255,103	\$	2,894,968	\$ 174,855
TOTAL NET POSITION - JANUARY 1	\$ 67,190,474	\$ (1,475,564)	\$	65,714,910	\$ 5,602,759
TOTAL NET POSITION - DECEMBER 31	\$ 69,830,339	\$ (1,220,461)	\$	68,609,878	\$ 5,777,614

* ALL ENTERPRISE FUNDS ARE MAJOR FUNDS

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Combined Statement of Cash Flows - All Proprietary Funds December 31, 2014

	MAJOR ENTERPRISE FUNDS *		TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUND
	UTILITIES FUND	GOLF COURSE FUND		
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 12,042,371	\$ 815,130	\$ 12,857,501	\$ -
Receipts from Quasi-External Operating Transactions	-	-	-	2,080,338
Receipts from Other Operating Activities	287,881	58,234	346,115	(51,438.3)
Payments to Suppliers of Goods &/or Services	(4,897,427)	(450,782)	(5,348,209)	(566,168)
Payments to Employees	(2,671,169)	(575,259)	(3,246,428)	(526,721)
Payments for Quasi-External Operating Transactions	(1,309,193)	-	(1,309,193)	(159,457)
Payments for Other Operating Activities	(1,081,632)	(106,457)	(1,188,089)	(746)
Net Cash Provided by Operating Activities	\$ 2,370,830	\$ (259,134)	\$ 2,111,696	\$ 775,808
Cash Flows from Noncapital Financing Activities				
Receipt of Interfund Loan	\$ 81,598	\$ -	\$ 81,598	\$ -
Repayment on Interfund Loan	185,000	(185,000)	-	-
Interest Received on Interfund Loan	1,809	-	1,809	-
Interest Paid on Interfund Loan	-	(1,809)	(1,809)	-
Transfers from Other Funds	212	826,931	827,143	9,161
Transfers to Other Funds	-	(1,908)	(1,908)	-
Net Cash Provided by Noncapital and Related Financing Activities	\$ 268,619	\$ 638,214	\$ 906,833	\$ 9,161
Cash Flows from Capital and Related Financing Activities:				
Payments for Capital Acquisitions	\$ (2,160,182)	\$ -	\$ (2,160,182)	\$ (704,713)
Principal Repayment on Public Work Trust Fund Loan	(44,730)	-	(44,730)	-
Interest Paid on Public Work Trust Fund Loan	(2,236)	-	(2,236)	-
Proceeds from Sale of Assets	-	-	-	72,107
Bond Premiums	(801)	(18,638)	(19,439)	-
Principal Repayment on Bond	(225,000)	(210,000)	(435,000)	-
Interest Paid on Bond	(13,705)	(100,917)	(114,622)	-
Principal Repayment on Capital Lease	-	(80,908)	(80,908)	-
Interest Payment on Capital Lease	-	(4,050)	(4,050)	-
Contributions in Aid of Construction	1,106,224	-	1,106,224	-
Net Cash Provided by Capital and Related Financing Activities	\$ (1,340,431)	\$ (414,513)	\$ (1,754,943)	\$ (632,606)
Cash Flows from Investing Activities:				
Receipts of Investment Interest	\$ 10,741	\$ -	\$ 10,741	\$ 2,541
Net (Increase) / Decrease in Investments	(102,012)	-	(102,012)	-
Net Cash Provided by Investing Activities	\$ (91,271)	\$ -	\$ (91,271)	\$ 2,541
Net Increase in Cash and Cash Equivalents	\$ 1,207,747	\$ (35,433)	\$ 1,172,315	\$ 154,904
Cash and Cash Equivalents January 1	\$ 11,068,442	\$ 155,229	\$ 11,223,671	\$ 2,871,005
Cash and Cash Equivalents December 31	\$ 12,276,190	\$ 119,796	\$ 12,395,986	\$ 3,025,909
Reconciliation of Operating Income to				
Net Cash Provided by Operations:				
Operating Income/(Loss) (a)	\$ 1,228,385	\$ (467,057)	\$ 761,328	\$ 153,256
Non-Cash Adjustments to Reconcile Operating Income to				
Net Cash Provided by Operating Activities:				
Depreciation/Amortization Expense	1,647,831	277,696	1,925,526	550,668
Change in Assets & Liabilities:				
Accounts Receivable	(101,373)	-	(101,373)	-
Other Operating Receivables	(501,886)	4,286	(497,600)	(51,438)
Inventory	(15,567)	(24,191)	(39,758)	(1,848)
Payables	96,616	(55,865)	40,751	120,265
Payroll Liability Payable	6,873	5,307	12,180	728
Accrued Annual Leave Liability	9,953	690	10,643	4,177
Total Adjustments (b)	\$ 1,142,446	\$ 207,923	\$ 1,350,369	\$ 622,552
Net Cash Provided/Used by Operations (a)+(b)	\$ 2,370,830	\$ (259,134)	\$ 2,111,696	\$ 775,808
Noncash investing, capital, and financing activities				
Contributions of capital assets	\$ 334,217		\$ 334,217	

* ALL ENTERPRISE FUNDS ARE MAJOR FUNDS

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Fiduciary Net Position December 31, 2014

		AGENCY FUNDS
<u>ASSETS</u>		
Cash & Cash Equivalents	\$	768,177
TOTAL ASSETS	\$	768,177
<u>LIABILITIES</u>		
Vouchers Payable	\$	-
Deposits Payable to Other Parties		768,177
TOTAL LIABILITIES	\$	768,177

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER, WASHINGTON

Notes to the Financial Statements

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Tumwater have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental. The Governmental Accounting Standards Board (GASB) is the nationally accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB 63 and GASB 65 regarding deferred inflows and deferred outflows have been implemented in the financial statements and notes. The other significant accounting policies are described below.

A - Reporting Entity

The City of Tumwater was incorporated on November 25, 1869 and operates under the laws of the State of Washington applicable to a Code City Mayor/Council, form of government. The City provides what are considered general governmental services authorized by state law, including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspections, general administration, and water and sewer services.

B – Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The City reports the following major governmental fund:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Development Fees Fund* is a special revenue fund that receives and disperses funds (i.e., transportation impact fees, park impact fees) via Interfund transfers for the specific development activities.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *Capital Projects Fund* is the City's primary reporting fund for general government acquisition and development projects (i.e., government buildings, city parks) and transportation infrastructure development.

The City reports the following major proprietary funds:

- The *Combined Utilities Fund* provides water, sewer, and storm drain services to most properties within the City and to some areas outside the City limits.
- The *Golf Course Fund* operates the Tumwater Valley Municipal Golf Course, a 7,200 yard 18-hole championship golf course with a pro-shop operated by the fund and restaurant space leased to a private party.

Additionally, the City reports the following fund type:

- An *Internal Service Fund* that accounts for heavy equipment and vehicle fleet management services as well as computer and communication equipment to the general government and enterprise funds.

As a general rule, the effect of Interfund activities has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility fund and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than program revenues, therefore general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Fund enterprise fund, the Golf Course Fund, and the Asset Management and Reserve Fund internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D – Assets, Liabilities, and Net Position or Equity

1 – Deposits and Investments (see Note 4 – 1-Deposits and Investments)

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is distributed to the various funds based on the amount available to invest at the end of the preceding month. The City's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized by state law to purchase certificates of deposit issued by Washington State depositories that participate in the State of Washington Public Deposit Protection Commission Pool, U.S. Treasury and agency securities, state and local government obligations, banker's acceptance and repurchase agreements, and the State of Washington Investment Pool. In accordance with GASB Statement 31, all investments are restated at market value as determined by the market on the balance sheet date. The change in balance sheet value of investments caused by this method of reporting is recognized as realized income.

2 – Receivables and Payables

Taxes receivable consists of property taxes (see: Note 4 – 2-Property Taxes) and accrued retail sales tax. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts owed on municipal court fines, utility customers for services provided, and other situations as they arise. Other significant non-recurring miscellaneous receivables are recognized as needed if measurable and available in governmental funds or recorded in proprietary funds.

3 – Amount Due To and From Other Funds and Governments, Interfund Loans

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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 disclosure of Interfund loans receivable and payable is included in Note 4 – 5-Interfund Receivables, Payables, and Transfers.)

Items identified as "Due from Other Governments" represents grant funding accrued for expenditures or expenses incurred during the reporting period. Additionally, property tax receipts collected by the Thurston County Treasurer as of December 31st but not received are identified in this classification. Items identified as "Due to Other Governments" represent the amount owed by the Utility fund to other governmental agencies for waste treatment and utility tax.

4 – Inventories

All inventories in proprietary funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased. However, there are no inventories in governmental activities at this time.

5 – Restricted Assets and Liabilities

Restricted assets include those amounts reserved for revenue bond debt as stipulated in the covenants of the issue, proceeds provided for debt service, legally restricted lodging tax revenue, fees collected specifically for development purposes (i.e.; impact fees, mitigation fees), money acquired from drug seizures and other felonies restricted to drug enforcement activities, and other purposes as they may occur.

6 – Capital Assets (see Note 4 – 3-Capital Assets)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as

assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets are included to the extent they can be identified. The type of intangibles the City may hold that have a definite useful life may include easements, water rights, and computer software. Of the items examined, easements that have been acquired have an indefinite useful life, water rights acquired are used in the production of the water supplied to the customers rather than held for resale. The City has placed value in the purchase of licensing of integrated software used by all departments, the conversion of data, and implementation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the reporting period there were no such projects funded by debt proceeds, therefore no capitalized interest to recognize.

Property, plant, and equipment of the City are depreciated using the straight line method with useful lives of 3 to 50 years depending on the type of asset. The useful lives of Infrastructure normally is 20-50 years, Buildings and components is 5-50 years, Improvements other than buildings is 5-50 years, Motor vehicles useful life is 5-15 years, electronic equipment 3-6 years and other machinery and equipment is 5-15 years.

Transportation infrastructure is reported in *Governmental Capital Assets Not Being Depreciated as Construction in Progress* until each project is completed. At that time it is to be identified as infrastructure assets in the appropriate classifications and depreciated over the useful life of the assets.

7 – Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

Annual leave is accumulated monthly at annual rates ranging from 12 to 23 days depending on tenure and union agreements. Employees may accumulate up to a maximum of 240 to 360 hours inclusive of current year accruals according to union agreements and City ordinances. Vacation leave is payable upon resignation, retirement, or death, to all employees having completed six months of service up to a maximum of 240 hours. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds if they have matured.

The sick leave accrual rate for forty hour per week employees is eight hours per month. Twenty-four hour fire department shift employees are credited with one working day of sick leave for each full month of employment. Some classes of employees are eligible for payment of sick leave at 25 percent of the hourly value upon retirement, voluntary termination, or layoff. Additionally, some employees may cash out a portion of sick leave each year at 25 percent of the hourly value based on criteria that recognizes minimal use of sick leave over a minimum of nine years of employment. Consequently, a liability for the potential cash-out is reported in all funds to the extent that it could be expended.

8 – Other Accrued Liabilities

Accrued wages and benefits and the cost of goods or service purchased by all funds not paid by the report date are recognized and paid during the following month. The cost of services provided by the regional waste treatment facility during the reporting period and paid after the report date are recognized in the fund financial statement of the Utilities Fund and in the business-type activities in the government-wide reports.

9 – Long-term Debt (see Note 4 – 6-Debt)

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

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

10 – Deferred Outflows

This account includes amounts recognized as receivable but not as revenue in governmental funds at the fund reporting level because the revenue recognition criterion has not been met. The amount represents property taxes assessed and shown as a receivable but not available within 30 days from the report date (see Note 4 – 2-Property Taxes) as well as retail sales tax, investment interest, and municipal court fines shown as receivable but not yet available under the same criteria.

11 – Fund Balance Classifications

As provided in GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, the City reports the fund balance classifications in aggregate in the balance sheet of the funds financial statement.

The following is the hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent:

- Non-spendable – Not available for spending in the current year (prepaid items, inventories, long-term portion of loans receivable, non-financial resources held for sale).
- Restricted – Subject to externally enforceable legal restrictions (imposed by creditors, grantors, donors, other governments, etc.) or imposed by law through constitutional or enabling legislation.
- Committed – Constrained by limitations that the City imposes upon itself by an action of the City Council and that remains binding unless removed in the same manner.
- Assigned – Reflects balances specifically assigned by Council through the budget process with every budget adoption cycle. These balances are called out for Council approval through special approval schedules for specific programs supported by Council and are incorporated into the budget and adopted with the City's overall budget.
- Unassigned – The remaining fund balance after identifying all other classifications of resources.

The following table presents the detail of each classification reporting in the fund level balance sheet presentation.

	MAJOR GOVERNMENTAL FUNDS				OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEVELOPMENT FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		
FUND BALANCES						
Restricted for:						
Court Trust Funds	\$ 23,050					\$ 23,050
Public Safety Levy	\$ 1,578,592					\$ 1,578,592
G.O. Bond Debt Service			\$ 105,706			\$ 105,706
Impact & Mitigation Fees		\$ 6,216,133				\$ 6,216,133
Lake Management District					\$ 24,586	\$ 24,586
Lodging Tax Funds					\$ 193,910	\$ 193,910
Drug Enforcement					\$ 88,831	\$ 88,831
Domestic Violence Advocacy					\$ 10,129	\$ 10,129
Committed to:						
Emergency Preparedness	\$ 382,798					\$ 382,798
Capital Facilities Plan				\$ 3,529,901		\$ 3,529,901
Assigned to:						
Facilities Maintenance	\$ 77,938					\$ 77,938
E-Link & Fiberoptics Updates	\$ 455,051					\$ 455,051
Turnwater Youth Program	\$ 27,837					\$ 27,837
Parks Board	\$ 603					\$ 603
Historical Commission	\$ 20,479					\$ 20,479
K-9 Program	\$ 6,176					\$ 6,176
Unassigned:	\$ 5,351,686	\$ -	\$ -	\$ -	\$ -	\$ 5,351,686
TOTAL FUND BALANCE	\$ 7,924,210	\$ 6,216,133	\$ 105,706	\$ 3,529,901	\$ 317,456	\$ 18,093,405
Totals of All Funds By Classification:						
Non-Spendable	\$ -					
Restricted	\$ 8,240,937					
Committed	\$ 3,912,699					
Assigned	\$ 588,086					
Unassigned	\$ 5,351,683					
TOTAL OF ALL FUNDS	\$ 18,093,405					

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

1 – Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position -governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Liabilities, including bonds and other debt instruments plus interest are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	\$ 855,000
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(40,404)
Plus: Issuance premium (to be amortized as interest expense)	424,720
Accrued interest payable	16,562
Compensated absences	1,205,817
OPEB Obligation Payable	1,772,006
Other Notes Payable	3,657,509
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 7,891,210</u>

Another element of that reconciliation states, "Other assets are not available to pay for current period expenditures and therefore deferred in the funds." The details of this difference are as follows:

Measureable but not yet available:	
Joint Venture	294,160
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 294,160</u>

2 – Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *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. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as reported as depreciation expense." The details of this difference are as follows:

Increase in Capital Assets	\$ 2,487,553
Depreciation Expense	<u>(3,136,629)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (649,076)</u>

Another element of that reconciliation states, "Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position." Repaying of principal is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The details of this difference are as follows:

<u>Debt issued or incurred:</u>	
Increase in other notes and obligations payable	\$ (392,573)
<u>Principal repayments:</u>	
Scheduled general obligation payments	198,376
Payment on other notes and obligations payable	<u>455,933</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 261,736</u>

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds when deferred." This is the amount by which increases in these deferrals exceed decreases. The details of this difference are as follows:

Measureable but not yet available at the fund reporting level:	
Property Taxes	\$ (195,737)
Retail Sales Taxes	(398,329)
Municipal Court Fines	(183,152)
Joint Venture	<u>1,721</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (775,497)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1 - Budgetary Information

The City budgets its funds in accordance with the Revised Code of Washington (RCW 35A.34). In compliance with the Code, budgets for all funds are established with the exception of the fiduciary funds. Budgets established for proprietary funds are “management budgets”.

The biennial budget, which begins on the odd years, is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level (i.e., expenditures may not exceed budget appropriations at the fund level). Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the City Council. All appropriations lapse at the end of the biennium. Unexpended resources must be re-appropriated in the subsequent biennium. The budgetary basis used in the City is substantially the same as the basis of accounting for the governmental fund types.

Washington State law establishes the biennial budget process and the time limits under which a budget must be developed. The City follows the procedures outlined below to establish its budget. The budget schedule, listing more specific dates for completing the following items is established in June.

- Department directors provide the City Administrator and Mayor with preliminary estimates of revenues and expenditures by September 1.
- The Mayor's preliminary budget is filed with the City Clerk on or before October 1.
- The City Council will fix by ordinance the amounts to be raised in property taxes on or before the first week of November each year of the budget.
- During the first two weeks of November, the City Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- During November and before the public hearing, the City Council meets in a work session to review the preliminary budget. These meetings are open to the public.
- On or before the first Monday of December, final public hearings are commenced and may be continued to no later than the 25th day of December prior to the next fiscal year.
- On or before December 31, the City Council adopts the final budget ordinance. The City Clerk publishes a notice indicating budget adoption has been completed.
- The final budget document is published, distributed, and made available to the public during the first three months of the following year.
- A Mid-biennial Review and Modification must occur no sooner than eight months after the start nor later than the conclusion of the first year of the biennium.

Supplementary information is presented later in this report for the general fund and all major special revenue funds that illustrate budgetary information for the current year of the biennium.

2 – Excess of Expenditures over Appropriations and Deficits of Fund Equity

- No funds exceeded the appropriations adopted in the budget.
- The Golf Course Enterprise Fund reports a deficit fund balance of \$1,220,461. This deficit should decline yearly as debt service payments are made. The General Government Capital Construction Fund transfers funds annually to the Golf Course Fund for payment of debt service on the General Obligation bonds. The current principal outstanding of these bonds is \$2,830,000 and the final debt service payment is made in 2025.
- There have been no material violations of finance-related, legal or contractual provisions.

NOTE 4 – DETAILED NOTES RELATING TO ALL FUNDS

1 – Deposits and Investments

The investment policies of the City are described in Note 1 – D-1 Deposits and Investments. As required by state law and the City's investment policy, all deposits and investments of the City funds consist of deposits in Washington Public Deposit Protection Commission (PDPC) member institutions, obligations of the U.S. Government, state or local governments, federal government sponsored corporations, the Washington State Local Government Investment Pool (LGIP), bankers acceptances, and investment deposits.

Deposits

The City's deposits and certificates of deposit are covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. It constitutes a multiple financial institution collateral pool that insures public deposits. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 10 percent of its public deposits. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements. The custodial risk for deposits is the risk that, in the event of a depository financial institution failure, the City's deposits with banks and savings and loan associations may not be recovered. Because of the PDPC, the City's deposits are not subject to this risk.

Investments

Although the city holds only two Certificates of Deposit as of the reporting date, all investments are to be shown on the entity-wide Statement of Net Position at fair values as of December 31, 2014; however the Washington State Local Government Investment Pool (LGIP) is reported on the balance sheet as Cash and Cash Equivalents. The LGIP is an un-rated 2a-7 like pool, as defined by GASB31, and not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Office of the State Treasurer manages the pool with the goals of the safety of principal and the assurance of sufficient liquidity to meet the cash flow demands of the participants, and strives to attain the highest possible yield within the constraints of those goals. Historically, the LGIP has had sufficient liquidity to meet the needs of the participants.

Investment Interest Rate Risk

When funds are invested, the City employs a passive investment strategy, purchasing and holding investments with a maximum five year maturity unless tied to a specific cash flow beyond five years. At the end of the year, the City held no investments. All funds were held as cash or deposited at the Washington State Local Government Investment Pool.

Investment Credit Risk

As required by state laws, it is the City's policy to limit its investments in debt securities to the obligations of the U.S. Government, U.S. Agency issues, obligations of Washington State municipalities, and the Local Government Investment Pool. The policy of the LGIP is to invest in securities and instruments that are eligible under various state laws. The investment policy of the LGIP is available at www.tre.wa.gov.

Investment Custodial Risk

All investments must be held in the City's name by third party custodians and are considered Category 1 investments.

Summary of Deposits and Investments

Deposits and Investments December 31, 2014		
<u>Deposits</u>		
State Investment Pool	\$	30,704,519
Short Term Invested		2,120,533
CD interest		
Checking & Trustee Accounts		1,689,900
Total Deposits	\$	34,514,952
 <u>Investments</u>		
		<u>Market Value</u>
U.S. Government Securities	\$	-
Certificates of Deposit		102,012
Total Investments	\$	102,012
 TOTAL DEPOSITS & INVESTMENTS		
	\$	34,616,964

2 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in Thurston County for all taxing authorities.

The property tax calendar is as follows:

- January 1 - Property taxes are levied on property values assessed as of the same date and become an enforceable lien against properties.
- February 14 – Tax bills are mailed.
- April 30 - The first of two equal installments is due.
- May 31 – Assessed value of property is established for next year's levy at 100% of market price.
- October 31 – The second installment is due.

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

The City is permitted by law to levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following reasons:

- The Washington State constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value.
- If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
- In 2001, a referendum was approved which limits the increase in general property taxes to 1 % above the prior year's assessment.
- The City may voluntarily levy taxes below the limits approved by referendum(s).
- Special levies approved by the voters are not subject to the above limitations.

In August 2011, the citizens of Tumwater approved a six-year permanent levy lid lift of general property taxes for the purpose of enhancing existing public safety programs. The levy increases property taxes by 29% in 2012 to collect an additional \$1,445,000, increasing by a CPI factor through 2017 and becoming permanent in 2018. Due to the effect of the levy lid lift and declining property values, the rate per \$1,000 on assessed value rose to \$3.10 in 2014. Total taxes assessed were \$6,906,378 based on that rate on total assessed valuation of \$2,228,063,282.

In addition to the regular tax levy, \$230,000 was collected for the retirement of general obligation bonds issued for the construction of the Fire Department Headquarters building and fire suppression apparatus acquired in 1998.

3 – Capital Assets

Governmental capital asset activity for the year ended December 31, 2014 was as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>Capital Assets not being Depreciated:</u>				
Historic Artifacts	298,499	-	-	298,499
Land	3,823,165	664,379	-	4,487,544
Right of Way	68,042,152		-	68,042,152
Work in Progress	9,322,658	2,471,643	(2,706,592)	9,087,709
Total Capital Assets not being Depreciated	\$ 81,486,474	\$ 3,136,022	\$ (2,706,592)	\$ 81,915,904
<u>Other Capital Assets:</u>				
Buildings	\$ 10,369,410	\$ -	\$ -	\$ 10,369,410
Improvements	4,633,314	231,485	-	4,864,800
Machinery and Equipment	9,880,332	705,774	(746,661)	9,839,445
Capitalized Integrated Software	480,537	-	-	480,537
Roadways	95,587,563	1,826,637	-	97,414,200
Total Other Capital Assets at Historical Cost	\$ 120,951,157	\$ 2,763,896	\$ (746,661)	\$ 122,968,392
<u>Less Accumulated Depreciation</u>				
Buildings	\$ (6,329,660)	\$ (351,697)	\$ -	\$ (6,681,358)
Improvements	(1,600,660)	(226,059)	-	(1,826,719)
Machinery and Equipment	(6,045,433)	(611,316)	683,390	(5,973,359)
Capitalized Integrated Software	(185,951)	(32,732)	-	(218,682)
Roadways	(45,099,941)	(2,465,493)	-	(47,565,434)
Total Accumulated Depreciation	\$ (59,261,645)	\$ (3,687,297)	\$ 683,390	\$ (62,265,552)
Other Capital Assets, Net of Depreciation	\$ 61,689,511	\$ (923,401)	\$ (63,271)	\$ 60,702,840
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	\$ 143,175,985	\$ 2,212,622	\$ (2,769,863)	\$ 142,618,744

Depreciation was charged to functions as follows:

Governmental Activities

General Government	\$ 110,689.77
Public Safety - Police	22,997.04
Public Safety - Fire	158,129.62
Public Works	17,152.60
Public Works - Roadway	2,465,493.00
Economic Environment	9,359.79
Culture & History	73,798.83
Parks & Recreation	279,008.11

In addition, depreciation on capital assets held by an internal service fund is charge to various functions based on their usage of the assets owned by the fund.

TOTAL GOVERNMENTAL ACTIVITIES	
DEPRECIATION EXPENSE	\$ 3,687,297

Business-type capital asset activity for the year ended December 31, 2014 was as follows:

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>Capital Assets not being Depreciated:</u>				
Land and Improvements	\$ 346,388	\$ 3,545,035	\$ -	\$ 3,891,423
Construction in Process	15,121,730	2,161,252	(15,157,506)	2,125,476
Total Capital Assets not being Depreciated	15,468,118	5,706,288	(15,157,506)	6,016,899
<u>Other Capital Assets:</u>				
Buildings	\$ 2,236,126	\$ 9,806	\$ -	\$ 2,245,932
Improvements	3,388,654	-	-	3,388,654
Machinery and Equipment	1,952,012	78,704	-	2,030,715
Utility Systems	59,022,355	11,857,108	-	70,879,462
Total Other Capital Assets at Historical Cost	\$ 66,599,147	\$ 11,945,618	\$ -	\$ 78,544,764
Total Assets	82,067,265	17,651,905	(15,157,506)	84,561,664
<u>Less Accumulated Depreciation</u>				
Buildings	\$ (969,756)	\$ (62,411)	\$ -	\$ (1,032,166)
Improvements	(2,754,293)	(106,191)	-	(2,860,484)
Machinery and Equipment	(1,418,584)	(132,464)	-	(1,551,048)
Utility Systems	(18,305,426)	(1,617,510)	-	(19,922,936)
Total Accumulated Depreciation	\$ (23,448,058)	\$ (1,918,576)	\$ -	\$ (25,366,634)
Other Capital Assets, Net of Depreciation	\$ 43,151,088	\$ 10,027,042	\$ -	\$ 53,178,130
NET BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS	\$ 58,619,206	\$ 15,733,329	\$ (15,157,506)	\$ 59,195,029

Depreciation was charged to functions as follow s:

Business-Type Activities

Combined Utility	\$ 1,647,831
Golf Course	270,745
TOTAL BUSINESS-TYPE ACTIVITIES	
DEPRECIATION EXPENSE	\$ 1,918,576

4 – Construction Commitments

The City has active construction projects in progress as of December 31, 2014. The project listing below represents the *major* projects underway. There are a number of smaller projects with costs accumulating from City staff project planning and review time as well as professional services and construction contracts. The majority of the financing of transportation projects is received from impact and mitigation fees paid by developers and from grants from the State of Washington. Utility projects are funded from fees paid by customers. There are no major projects underway in the utility funds at this time.

<u>PROJECT NAME</u>	<u>SPENT TO DATE</u>	<u>ESTIMATED REMAINING COMMITMENT</u>
Somerset Hill Drive Outfall	\$ 267,804	\$ 85,067
Cleveland Avenue Outfall:	287,745	51,146
Linderson / Lee Bike & Ped:	314,463	16,551
ESCO Project:	259,859	1,343,639
Total	\$ 1,129,871	\$ 1,496,403

5 – Interfund Receivables, Payables, Loans, Transfers

Loans

An three-year Interfund loan from the Equipment Rental internal service fund to the Capital Projects Fund to finance the renovation of the Old Town Center building that serves as the seniors and youth center was authorized in April 2011. The loan was not to exceed \$300,000 and to be used for an upgrade of the fire suppression system and other improvements to prepare for the addition of a day care center. Payment of \$44,327 was made in 2014 to close out the loan as scheduled. Since the Equipment Rental internal service fund is reported as Governmental Activities in the Statement of Net Position, the Interfund activity is eliminated.

A four-year Interfund loan from the combined utilities fund to the Capital Projects Fund to finance the acquisition of land in Tumwater Valley for future park use and for improvements to the access to Tumwater Valley was authorized in April 2012. Payment of \$81,598 was made in 2014 leaving the balance at \$163,196

An Interfund loan from the combined utility funds to the golf course fund has been authorized by City ordinance. During the year, a total of \$356,233 in draws was made and \$541,233 was repaid. The principal balance at the end of the year is \$1,510,732 with an authorized maximum of \$2,100,000.

Transfers

Transfers to the General Fund and Capital Projects Fund totaling \$658,880 from the Utilities Fund represent utility taxes collected by the Utilities Fund that is recorded as an operating revenue when billed and an operating expense when transferred to the governmental funds. The governmental funds report this as tax revenue. The Development Fee Fund transferred money totaling \$296,015 the majority of which represents transportation impact fees or mitigation fees collected from new development and utilized in the current year for transportation projects. The Golf Course Fund transfer-in of \$519,713 from the Capital Projects Fund is authorized as a component of the capital facilities plan and is for payment of debt service. The General Fund also funded debt service and operations of the Golf Course Fund with a transfer of \$307,219.

<u>Transfers Out:</u>	Transfers In						Total
	General Fund	Debt Service Fund	Capital Projects Fund	Utilities Fund	Golf Course Fund	Internal Service Fund	
General Fund		\$ 607,961	\$ 429,786	\$ 212	\$ 307,219	\$ 7,253	\$ 1,352,430
Development Fees Fund	\$ 22,121		\$ 273,894				\$ 296,015
Capital Projects Fund	30,000	-			519,713		549,713
Utilities Fund	406,309		252,571			1,908	660,789
Total Transfers Out	\$ 458,430	\$ 607,961	\$ 956,250	\$ 212	\$ 826,931	\$ 9,161	\$ 2,858,946

6 – Debt

Short Term Debt

The City has not utilized anticipation notes, lines of credit, or similar short-term borrowing instruments during the reporting period.

Leases

The City may enter into lease agreements for financing capital acquisitions. Leases for golf carts, golf course maintenance equipment, a fire pumper truck, and for expansion of city hall have been authorized. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payment as of the inception of the leases.

Long Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In past years, general obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

<u>OUTSTANDING GENERAL OBLIGATION BONDS</u>			
Purpose	Interest Rate		Amount
Golf Course Acquisition and Upgrade	3.470%	\$	2,830,000
Fire Headquarters and Trucks	3.157%	\$	855,000

<u>ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR GENERAL OBLIGATION BONDS</u>					
Year Ending December 31	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	
2015	200,000	29,400	215,000	104,388	
2016	210,000	23,400	220,000	97,863	
2017	220,000	16,575	230,000	91,113	
2018	225,000	8,875	235,000	83,844	
2019			245,000	75,125	
2020-2024			1,380,000	212,513	
2025			305,000	6,100	
TOTAL \$	855,000	\$ 78,250	\$ 2,830,000	\$ 670,944	

The City also issued bonds where the City pledges a portion of income derived from the Utility Fund to pay debt service.

Revenue bonds currently outstanding are as follows:

<u>OUTSTANDING REVENUE BONDS</u>			
Purpose	Interest Rate		Amount
Combined Utility Projects	2.949%	\$	230,000

<u>ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR REVENUE BONDS</u>		
Year Ending December 31	Principal	Interest
2015	230,000	7,475
TOTAL \$	230,000	\$ 7,475

The City also borrowed funds from the State of Washington Public Works Board. Public works trust fund loans are available to selected local governments for the repair, replacement, reconstruction, rehabilitation, or improvements of bridges, roads, domestic water systems, sanitary sewer, and storm systems. This junior lien of the City Utility Fund is paid from the revenue generated from operations.

Public Works Trust Fund loans currently outstanding are as follows:

<u>OUTSTANDING PUBLIC WORKS TRUST FUND LOANS</u>			
Purpose	Interest Rate	Amount	
Combined Utility Projects	1.00%	\$	178,919

<u>ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR PUBLIC WORKS TRUST FUND LOANS</u>			
Year Ending December 31	Principal	Interest	
2015	44,730	1,640	
2016	44,730	1,342	
2017	44,730	895	
2018	44,729	447	
TOTAL	\$ 178,919	\$	4,324

The City entered into agreements for the acquisition of equipment and real estate by executing capital leases. The leases are short term arrangements through the Washington State Treasurer's Office.

Capital leases outstanding are as follows:

<u>OUTSTANDING CAPITAL LEASES</u>			
Purpose	Interest Rate	Amount	
City Hall Expansion	2.394%	\$	3,255,000
Fire Pumper Truck	1.849%	\$	402,509
Golf Course Maintenance Equipment	1.197%	\$	155,414
Golf Carts	1.350%	\$	145,343
		\$	3,958,266

<u>ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR CAPITAL LEASES</u>			
Year Ending December 31	Principal	Interest	
2015	483,963	168,094	
2016	499,431	151,976	
2017	520,493	133,014	
2018	485,725	110,337	
2019	469,768	86,689	
2020-2022	1,498,888	111,525	
TOTAL	\$ 3,958,267	\$	761,635

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31 was as follows:

The vast majority of the City's internal service fund serves governmental funds. Accordingly, liabilities for the Equipment Rental and Reserve fund are included as part of the totals for governmental-type activities in the government-wide statements. At the end of the year, the compensated leave balance in this fund is \$63,429.67 and is reported in Governmental Activities.

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Bonds and Notes Payable					
General Obligation Bonds	\$ 1,055,000	\$ -	\$ (200,000)	\$ 855,000	\$ 200,000
Capital Lease Obligations	\$ 4,050,945	\$ -	\$ (393,436)	\$ 3,657,509	\$ 400,165
	\$ 5,105,945	\$ -	\$ (593,436)	\$ 4,512,509	\$ 600,165
Plus Premiums / Less Discounts	494,298	-	(69,577)	424,721	
Less Deferred Amount on Refundings	(50,505)	-	10,101	(40,404)	
Total Bonds and Notes Payable	\$ 5,549,739	\$ -	\$ (652,912)	\$ 4,896,826	\$ 600,165
Other Liabilities					
Compensated Leave	\$ 1,231,464	\$ 37,783	\$ -	\$ 1,269,247	\$ -
Post-Employment Benefit Obligation	1,413,039	358,967	-	1,772,006	
GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	\$ 8,194,242	\$ 396,750	\$ (652,912)	\$ 7,938,079	\$ 600,165

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Bonds and Notes Payable					
General Obligation Bonds (Golf Course Fund)	\$ 3,040,000	\$ -	\$ (210,000)	\$ 2,830,000	\$ 215,000
Capital Lease Obligations (Golf Course)	381,666	-	(80,909)	300,757	83,797
Revenue Bonds (Utilities Fund)	455,000	-	(225,000)	230,000	230,000
Public Works Trust Fund Loans (Utilities Fund)	223,649		(44,730)	178,919	44,730
	\$ 4,100,315	\$ -	\$ (560,639)	\$ 3,539,676	\$ 573,527
Plus Premiums	130,333	-	(19,439)	110,893	
Less Discounts	-	-	-	-	
Less Deferred Amount on Refundings	(131,247)	-	33,478	(97,769)	
Total Bonds and Notes Payable	\$ 4,099,400	\$ -	\$ (546,600)	\$ 3,552,800	\$ 573,527
Other Liabilities					
Compensate Leave	\$ 247,362	\$ 10,643	\$ -	\$ 258,004	\$ -
Total Other Liabilities	247,362	10,643	-	258,004	-
BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES	\$ 4,346,762	\$ 10,643	\$ (546,600)	\$ 3,810,805	\$ 573,527

7 – Joint Venture

Animal Control Commission

The City holds an ongoing equity interest in the local Animal Control Commission along with the City of Olympia, City of Lacey, and Thurston County. The agreement between the parties defines the equity interest based on the percentage of contributions made by all entities. The City of Tumwater holds a 7.06% interest as of December 31, which equates to a value of \$281,358 of the total equity of \$3,985,247, for an increase of \$10,237 from the prior year. The financial statements for the Commission are included in the annual financial report of the City of Lacey, 420 College Street S.E., Lacey, Washington 98503.

Law Enforcement Records Management System (LERMS)

The LERMS is a joint venture providing accurate and timely criminal justice data sharing to the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The goal of this joint venture is to share public safety information, increase operational efficiency via a reduction in data entry, and ease the process of accessing information. These goals will improve officer and citizen safety, facilitate coordination and information sharing to both internal and external agencies, and improve data quality and timeliness of data accessibility. It is governed through an Interlocal agreement by the LERMS Consortium, which is a five member board composed of each City's Chief of Police (or their designee).

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. As of December 31, the City of Tumwater owns a 14% share of the equity. Net Position as of the end of the year was \$91,443. The City's interest is \$12,802, a decrease of \$8,516 from the prior year. The City of Tumwater reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

The City of Olympia accounts for the joint venture in a separate agency fund. Completed Financial Statements can be obtained from the City of Olympia Administrative Services Department, PO Box 1967, Olympia, WA 98507

8 – Other Post-employment Benefits (OPEB)

In addition to the pension benefits described in #9 (below), the City of Tumwater provides post-employment health care benefits; in accordance with Title 41 RCW to 15 LEOFF Plan 1 retirees that meet those eligibility requirements. There are no active LEOFF Plan I employees. The City reimburses 100% of the amount of validated claims for medical and hospitalization costs incurred by LEOFF Plan I employees. The City also reimburses a fixed amount of \$104.90 per month for a Medicare supplement (Part B) for each retiree eligible for Medicare. Employer contributions are financed on pay-as-you-go basis. Expenditures for post-employment health care benefits are recognized as retirees report claims. During the year, expenditures of \$161,630 were recognized for LEOFF Plan 1 retired employees.

The City has purchased long-term care insurance coverage for all LEOFF Plan 1 members to offset the costs that would be paid by the City if incurred.

Annual OPEB Cost and Net OPEB Obligation

The City used the alternative measurement method permitted under GASB Statement No. 45. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by the OSA in the state-wide LEOFF Plan 1 medical study performed in 2011. The results were based on grouped data with four inactive groupings. The actuarial cost method used to determine the accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purpose of this valuation.

The Actual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 25 years using closed group contribution rates. The following table shows the components of the City's annual OPEB cost for the year and the amount actually contributed to the plan. The net OPEB obligation of \$1,772,006 is included as a non-current liability in the Statement of Net Position. The City's percentage of annual OPEB cost contributed to the plan for 2014 is 27.34%.

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual Required Contribution (ARC)	\$ 425,348	\$ 613,945	\$ 591,165
Interest on Prior Year's Net Obligation *	44,298	44,145	56,522
Net Obligation Amortization	(91,662)	(99,261)	(127,090)
Annual OPEB Cost	377,984	558,829	520,597
Less: City Contribution	(258,766)	(249,411)	(161,630)
Addition to Net Obligation	119,218	309,418	358,967
Plus: Cumulative Net Obligation Prior Year	984,403	1,103,621	1,413,039
Net Obligation - Year-end	\$ 1,103,621	\$ 1,413,039	\$ 1,772,006

*Average annual interest estimate = 4%

As of December 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$6,572,806 and the actuarial value of the assets was \$0 resulting in an Unfunded Actuarial Accrued Liability of \$6,572,806. A significant increase in the unfunded liability has been recognized in 2014 caused by changes related to the Affordable Care Act that will become effective in 2018.

OPEB Plan for Employees other than LEOFF Plan 1

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

The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees, and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees, of the City receiving medical benefits from the Trust contribute the following monthly amounts:

Health First-1000 Plan

- \$830.01 for non-Medicare enrolled retiree-only coverage,
- \$837.26 for non-Medicare enrolled spouse coverage,
- \$443.30 for Medicare-enrolled retiree coverage,
- \$456.13 for Medicare enrolled spouse coverage.

Health First Plan

- \$724.72 for non-Medicare enrolled retiree-only coverage,
- \$729.99 for non-Medicare enrolled spouse coverage,
- \$388.08 for Medicare-enrolled retiree coverage,
- \$398.04 for Medicare enrolled spouse coverage.

Participating Employers are not contractually required to contribute at a rate assessed each year by the Trust for the non-LEOFF Plan 1 retirees. The retirees pay 100% of the premium.

9 – Pension Plans

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. 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.

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 2014, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

PERS 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 actuarially reduced to reflect the choice, if made, of a survivor option.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction,

PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

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

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

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

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

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

PERS Plan 3 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, 2012:

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

Funding Policy

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

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

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

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

Members not participating in JBM:

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

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

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

*** Plan 3 defined benefit portion only.

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

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

Members Participating in JBM:

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

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

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$10,817	\$572,201	\$139,721
2013	\$14,699	\$487,151	\$114,204
2012	\$17,887	\$425,659	\$96,992

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

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If 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 the completion of five years of eligible service.

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

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

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

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

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

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

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to but not yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	27,784

Funding Policy

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

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

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

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

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

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

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

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

2014	\$0	\$327,909
2013	\$0	\$316,727
2012	\$0	\$291,198

Public Safety Employees' Retirement System (PSERS) Plan 2

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 2013, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest 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, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to but not yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Non-vested	2,167
Total	4,337

Funding Policy

Each biennium, the state Pension Funding Council adopts 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 payrolls, as of December 31, 2014, were as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

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

There are currently no City of Tumwater employees participating in PSERS Plan 2.

10 – Contingencies and Litigation

As of December 31, a number of claims were pending against the City for damages and legal actions with either monetary claims or issues that could affect the City financially. While the outcome of these actions is uncertain, no losses are clearly anticipated at this time. Any potential adverse judgments against the City would be subject to coverage under the City's comprehensive liability insurance, which includes public official's errors and omissions insurance.

11 – Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

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

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

aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the Interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. There are no liability losses which exceeded insurance coverage for the City of Tumwater 1/1/2009 to 12/31/2014.

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

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

12 – Subsequent Events

On March 24, 2015, the City closed on a Certificate of Participation bond in the amount of \$1,000,000 through the State of Washington Local Option Capital Asset Lending (LOCAL) program. The bond liability has a term of eight years with an effective interest rate of 2.33% and matures June 1, 2027. The annual debt service payment for 2015 will be \$31,201. Subsequent annual debt service payments range from \$94,175 to \$96,425. The City is funding a street and office lighting energy efficiency project with the proceeds, and an upgrade of the HVAC system at City Hall.

On April 28, 2015, Tumwater voters approved a new 0.2% sales tax by a large margin. The new sales tax is estimated to generate revenue of between \$800,000 and 900,000 in 2016 and will fund a newly formed Tumwater Transportation Benefit District (TTBD). The TTBD is a legally separate entity and will be accounted for as a Special Revenue Fund and a component unit of the City in 2015. It entered into an Intergovernmental Agreement with the City to fund street repairs and renewal.

CITY OF TUMWATER

GENERAL FUND - Budget and Actual

Schedule of Revenues, Expenditures, and Changes in Fund Balance

December 31, 2014

For the *Biennium* Ended December 31, 2014

	BEGINNING 2013-2014 BIENNIAL BUDGET		FINAL 2013-2014 BIENNIAL BUDGET		ACTUAL 2014 BIENNIUM-TO-DATE THRU 12/31/2014	
<u>REVENUES</u>						
Taxes	\$	29,367,229	\$	29,458,229	\$	29,230,272
Licenses & Permits		1,621,675		1,621,675		2,028,621
Intergovernmental		5,515,499		6,164,909		6,423,688
Charges for Services		2,804,264		2,804,264		2,967,261
Fines & Forfeitures		482,020		482,020		467,604
Miscellaneous		327,850		347,850		421,396
TOTAL REVENUES	\$	40,118,537	\$	40,878,947	\$	41,538,841
<u>EXPENDITURES</u>						
<u>Current:</u>						
General Government	\$	8,855,752	\$	10,464,015	\$	9,519,711
Public Safety - Police		10,004,017		10,034,017		10,028,410
Public Safety - Fire		11,346,547		11,732,458		11,385,910
Public Works		3,850,073		3,850,073		3,593,209
Economic Environment		2,578,663		2,578,663		2,983,094
Culture & History		20,000		20,000		27,136
Parks & Recreation		4,900,390		4,893,062		2,314,475
Capital Outlay:						
General Government		67,200		67,200		-
Public Safety - Police		73,000		73,000		-
Public Works		74,000		79,115		-
Culture & History		30,000		27,615		-
Parks & Recreations		42,000		42,000		-
TOTAL EXPENDITURES	\$	41,841,642	\$	43,861,218	\$	39,851,945
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$	(1,723,105)	\$	(2,982,271)	\$	1,686,897
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	\$	828,522	\$	1,216,821	\$	859,535
Miscellaneous	\$	-	\$	-	\$	9,800
Transfers Out	\$	(4,513,559)	\$	(1,527,559)	\$	(1,883,288)
TOTAL OTHER FINANCING SOURCES (USES)	\$	(3,685,037)	\$	(310,738)	\$	(1,013,953)
NET CHANGE IN FUND BALANCES	\$	(5,408,142)	\$	(3,293,009)	\$	672,944
PLUS: FUND BALANCES - BEGINNING	\$	7,251,266	\$	7,251,266	\$	7,251,266
FUND BALANCES - ENDING	\$	1,843,124	\$	3,958,257	\$	7,924,210

CITY OF TUMWATER

DEVELOPMENT FEES Special Revenue Fund - Budget and Actual Schedule of Revenues, Expenditures, and Changes in Fund Balance December 31, 2014

For the *Biennium* Ended December 31, 2014

	BEGINNING 2013-2014 BIENNIAL BUDGET	FINAL 2013-2014 BIENNIAL BUDGET	ACTUAL 2014 BIENNIUM-TO-DATE THRU 12/31/2014
REVENUES			
Charges for Services	\$ 1,176,000	\$ 2,351,000	\$ 2,378,654
Miscellaneous	20,000	20,000	12,063
TOTAL REVENUES	\$ 1,196,000	\$ 2,371,000	\$ 2,390,717
EXPENDITURES			
Current:			
General Government	\$ -	\$ -	\$ -
Physical Environment	-	-	-
Transportation	-	-	-
Culture & Recreation	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,196,000	\$ 2,371,000	\$ 2,390,717
OTHER FINANCING SOURCES (USES)			
Transfers Out	\$ (876,100)	\$ (966,239)	\$ (1,041,472)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (876,100)	\$ (966,239)	\$ (1,041,472)
NET CHANGE IN FUND BALANCES	\$ 319,900	\$ 1,404,761	\$ 1,349,245
PLUS: FUND BALANCES - BEGINNING	\$ 4,866,888	\$ 4,866,888	\$ 4,866,888
FUND BALANCES - ENDING	\$ 5,186,788	\$ 6,271,649	\$ 6,216,133

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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