



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Pasco

Franklin County

For the period January 1, 2015 through December 31, 2015

Published September 29, 2016

Report No. 1017633





Washington State Auditor's Office

September 29, 2016

Mayor and City Council
City of Pasco
Pasco, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Pasco
Franklin County
January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Pasco are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Pasco Franklin County January 1, 2015 through December 31, 2015

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

Audit Period: Jan. 1, 2015 – Dec. 31, 2015	Report Ref. No.: 1015191	Finding Ref. No.: 2014-001	CFDA Number(s): 20.205
Federal Program Name and Granting Agency: Highway Planning and Construction U.S. Department of Transportation		Pass-Through Agency Name: WA State Department of Transportation	
Finding Caption: The City's internal controls were inadequate to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements for its Highway Planning and Construction Grant.			
Background: The City spent \$2,504,357 in Highway Planning and Construction grant funds on twelve projects in fiscal year 2014. The focus of the audit was on two of these projects which consisted of \$1,019,484 on the Road 68 Improvements and \$563,902 on the Court Street Ramp Upgrade. For construction projects that are federally funded with the Highway Planning and Construction grant that exceed \$2,000 and are linked to a federal aid highway, the Davis-Bacon Act requires recipients of federal funds to obtain weekly certified payrolls for all contractors and subcontractors to ensure prevailing wages are paid. We determined that the Davis-Bacon Act was applicable to the Road 68 Improvements and Court Street Ramp Upgrade Projects. During our audit, we noted a significant internal control deficiency, which we consider to be a material weakness. The City did not adequately monitor to ensure contractors and subcontractors paid prevailing wages and did not obtain all weekly certified payrolls.			
Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			
Corrective Action Taken: <i>City of Pasco created a full-time position within the Public Works department to create a single and consistent facilitator who ensure that requirements are being met by all project managers.</i>			

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

**City of Pasco
Franklin County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Pasco
Pasco, 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 Pasco, Franklin County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2016. As discussed in Note 11 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

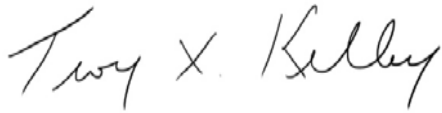
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

PURPOSE OF THIS REPORT

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

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

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

September 23, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Pasco
Franklin County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Pasco
Pasco, Washington

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

We have audited the compliance of the City of Pasco, Franklin County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

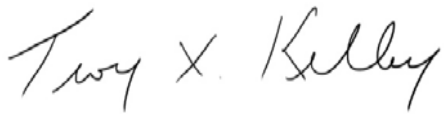
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

Purpose of this Report

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

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

September 23, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Pasco Franklin County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Pasco
Pasco, 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 Pasco, Franklin County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 17.

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 Pasco, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 29, information on postemployment benefits other than pensions on page 90 and pension plan information on pages 91 through 94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

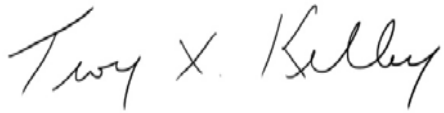
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 23, 2016

FINANCIAL SECTION

**City of Pasco
Franklin County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
– General Fund - 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's OPEB Fund – 2015

Other LEOFF 1 OPEB - 2015

Schedule of Proportionate Share of the Net Pension Liability – 2015

Schedule of Proportionate Share of the Net Pension Asset – 2015

Schedule of Employer Contributions – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

MANAGEMENTS' DISCUSSION AND ANALYSIS

As management of the City of Pasco, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City of Pasco for the fiscal year ended December 31, 2015.. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

Financial Highlights

- The assets and deferred inflows of the City of Pasco exceeded liabilities and deferred outflows at the close of the most recent fiscal year by \$384,010. Of this amount, \$46,099 may be used to meet the government's ongoing obligations to the citizens and creditors.
- The City of Pasco's total net position improved by \$22,738 after beginning net position was restated (lowered by \$6,650; predominately due to the implementation of GASB 68 relating to changes in pension accounting and reporting). Approximately 20% of the increase in net position is due to increases in business-type activities and 80% is due to governmental-type activities. Virtually all of the net increase is due to contributed infrastructure assets of \$23,396. Without the effect of contributed assets, net position shows a slight decrease (\$659).
- As of the close of the current fiscal year, the City of Pasco's governmental funds reported combined ending fund balances of \$35,579, an increase of \$9,478 in comparison with the prior year.
- At the end of the current fiscal year, the unrestricted, unassigned fund balance for the City's General Fund was \$11,919 which also represents 31% of total General Fund expenditures. There was an excess of revenues over expenditures of \$3,273; transfers in totaling \$138 and transfers out totaling \$4,591. Of the transfers out, \$3,494 was for one-time expenditures (to cover construction project capital spending) and \$916 for cash flow and other subsidies to Special Revenue funds and \$181 to internal service funds to subsidize fund balances and capital purchases.
- The City of Pasco had two debt issuances in 2015. One debt issuance was for \$8,795,000 to provide funding for a new police station and to remodel the current space used by the police department after they relocate to the new station. The second was a utility revenue bond to provide \$10,500 for new capital construction projects, refund \$4,153 of existing debt and to provide \$1,178 to the utility debt reserve account.
- The City of Pasco implemented GASB 68 which changes the way pensions are accounted for and reported. This also resulted in a change in a variety of prior year balances for assets, liabilities, deferred outflows, deferred inflows, and net position.

Overview of the Financial Statements

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

Government-wide Financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Pasco's finances in a manner similar to a private-sector business. The *Statement of Net position* presents information on all of the City of Pasco's assets and liabilities with the difference between the two reported as *net position*. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Pasco is improving or deteriorating.

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

The government-wide financial statements distinguish functions of the City of Pasco that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from activities that are supported by fees and charges (*Business-Type Activities*). The governmental activities of the City of Pasco include general government, public safety, utilities and environment, transportation, economic environment, and culture and recreation. The business-type activities of the City of Pasco include water/sewer (which cover water, sewer, irrigation, process-reuse and storm water activities), equipment maintenance and equipment replacement services.

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

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

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

The City of Pasco maintains thirty-one individual governmental funds including the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is a major fund as defined by the Governmental Accounting Standards Board. In 2015, the General Fund and the Construction Fund were the only major governmental funds. Data from the other funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *Combining Statements* elsewhere in this report.

The City of Pasco adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The City of Pasco maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Pasco uses an enterprise fund to account for the water/sewer utility. An *Internal service fund* is an accounting device used to accumulate and allocate costs internally to the City of Pasco's various functions. The City of Pasco uses internal service funds to account for its equipment maintenance and replacement, central stores and medical/dental insurance. As the central stores, medical/dental insurance and certain equipment maintenance and replacement services predominately benefit governmental rather than business-type functions, they have been included with *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water/sewer fund. Data from the other two internal service funds (equipment maintenance and equipment replacement of utility equipment) are combined into a single, aggregated presentation in the basic proprietary fund financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Pasco's own programs. The accounting used for the fiduciary funds is much like that used for enterprise funds except for agency funds which only show assets and liabilities.

Notes to the Financial Statements

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

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Pasco, assets and deferred inflows exceeded liabilities and deferred outflows by \$384.03 million at the close of the most recent fiscal year. The largest portion of the City of Pasco's net position \$337.46 million (88%) reflects its investment in capital assets (e.g. buildings, machinery, equipment, infrastructure, construction in progress) less any related outstanding debt used to acquire those assets. The city of Pasco uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Pasco's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. 5% (\$20.40 million) of the City of Pasco's net position represents resources that are subject to external restrictions on how they may be used. The remaining \$26.17 million of unrestricted net position (7%) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Pasco's Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
NonCapital assets	\$ 53.18	\$ 41.41	\$ 26.78	\$ 20.74	\$ 79.96	62.15
Capital assets	205.53	\$ 190.10	176.76	\$ 169.54	382.29	359.64
Total assets	258.71	231.51	203.54	190.28	462.25	421.79
Deferred Outflows	2.81	1.25	0.43	0.22	3.24	1.47
Current liabilities	6.41	4.02	4.95	5.15	11.36	9.17
Noncurrent liabilities	23.38	12.54	43.83	34.33	67.21	46.87
Total liabilities	29.79	16.56	48.78	39.48	78.57	56.04
Deferred Inflows	2.62	5.38	0.27	0.56	2.89	5.94
Net position:						
Investment in capital assets	198.28	185.42	139.18	137.10	337.46	322.52
Restricted	20.40	14.36	-	10.84	20.40	25.20
Unrestricted	10.43	11.04	15.74	2.52	26.17	13.56
Total net position	<u>\$ 229.11</u>	<u>\$ 210.82</u>	<u>\$ 154.92</u>	<u>\$ 150.46</u>	<u>\$ 384.03</u>	<u>\$ 361.28</u>

* Restated to reflect GASB 68 pension adjustments.

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

The City's net position increased by \$22.75 million, during the current fiscal year. \$23.4 million is due to infrastructure assets turnover from developers to the city. Without the contributed assets, city would have experienced a decrease of \$0.6 million - the result of expenses exceeding revenues by a slight amount. While fees for services and tax revenues increased, so did costs. For the business-type funds, the increase in charges for services – primarily related to utility rate increases – outpaced increased costs.

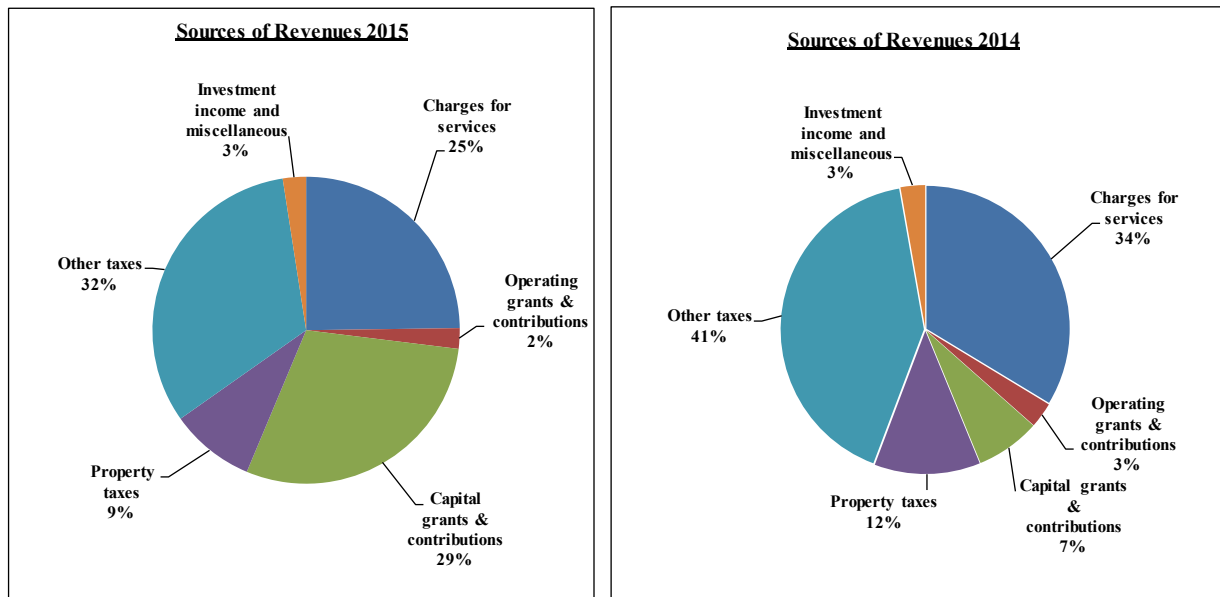
City of Pasco's Change in Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 20.21	\$ 19.94	\$ 20.98	\$ 20.01	\$ 41.19	\$ 39.95
Operating grants & contributions	1.77	1.70	0.03	0.02	1.80	1.72
Capital grants & contributions	23.93	4.30	6.09	3.35	30.02	7.65
General revenues:						
Property taxes	7.26	7.07			7.26	7.07
Other taxes	26.36	24.58			26.36	24.58
Investment income and miscellaneous	1.99	1.64	0.10	0.03	2.09	1.67
Total revenues	<u>81.52</u>	<u>59.23</u>	<u>27.20</u>	<u>23.41</u>	<u>108.72</u>	<u>82.64</u>
Program expenses:						
General government	8.24	8.09			8.24	8.09
Public safety	24.93	21.63			24.93	21.63
Transportation	16.37	16.73			16.37	16.73
Economic environment	5.14	4.71			5.14	4.71
Culture and recreation	8.11	7.94			8.11	7.94
Interest on long term debt	0.44	0.21			0.44	0.21
Water			9.10	8.25	9.10	8.25
Sewer			8.17	7.90	8.17	7.90
Process water reuse			2.52	1.85	2.52	1.85
Storm water			1.17	1.29	1.17	1.29
Irrigation			1.78	1.55	1.78	1.55
Total expenses	<u>63.23</u>	<u>59.31</u>	<u>22.74</u>	<u>20.84</u>	<u>85.97</u>	<u>80.15</u>
Changes in net position	18.29	(0.08)	4.46	2.57	22.75	2.49
Transfers	-	(0.15)	-	0.15	-	-
Total changes in net position	<u>\$ 18.29</u>	<u>\$ (0.23)</u>	<u>\$ 4.46</u>	<u>\$ 2.72</u>	<u>\$ 22.75</u>	<u>\$ 2.49</u>

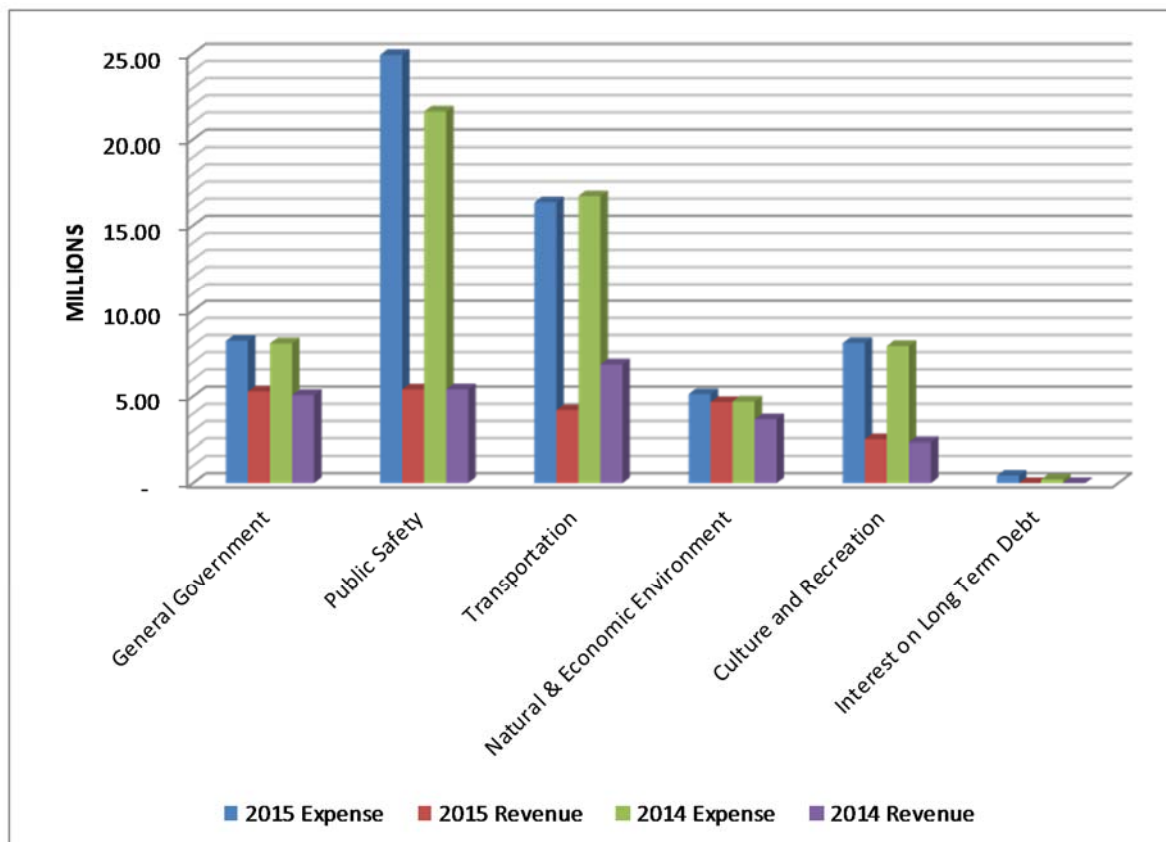
Governmental Activities. Governmental activities increased the City of Pasco's net position by \$18,283 or 80% of the total change in net position. The entire amount of the increase was attributable to contributed assets totaling \$23,929 without which governmental activities would have reduced the City's net position by of \$5,647. Also, the beginning net position was reduced by \$4,355 due to implementation of GASB 68 pension reporting and \$539 for restatement of beginning compensated absences obligation.

The City has continued to see increases in taxes. Total tax revenues increased by \$1,967 (6%). Sales taxes continued to grow due to new construction and the continuing improved economic climate. In 2015, there was a \$950 (7%) increase in sales taxes over the previous year. At the fund level, property tax revenues displayed continued growth due to increases in new construction, assessed valuation and the effect of the 2012 annexation. Although construction continued at the slower pace, permitting fees increased by \$88 (9%). In 2015 the city added 18 positions: 7 in the Fire Department, 1 in the Police Department, 9 in the Public Works Department and 1 in the Administrative & Community Services Department.

GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE

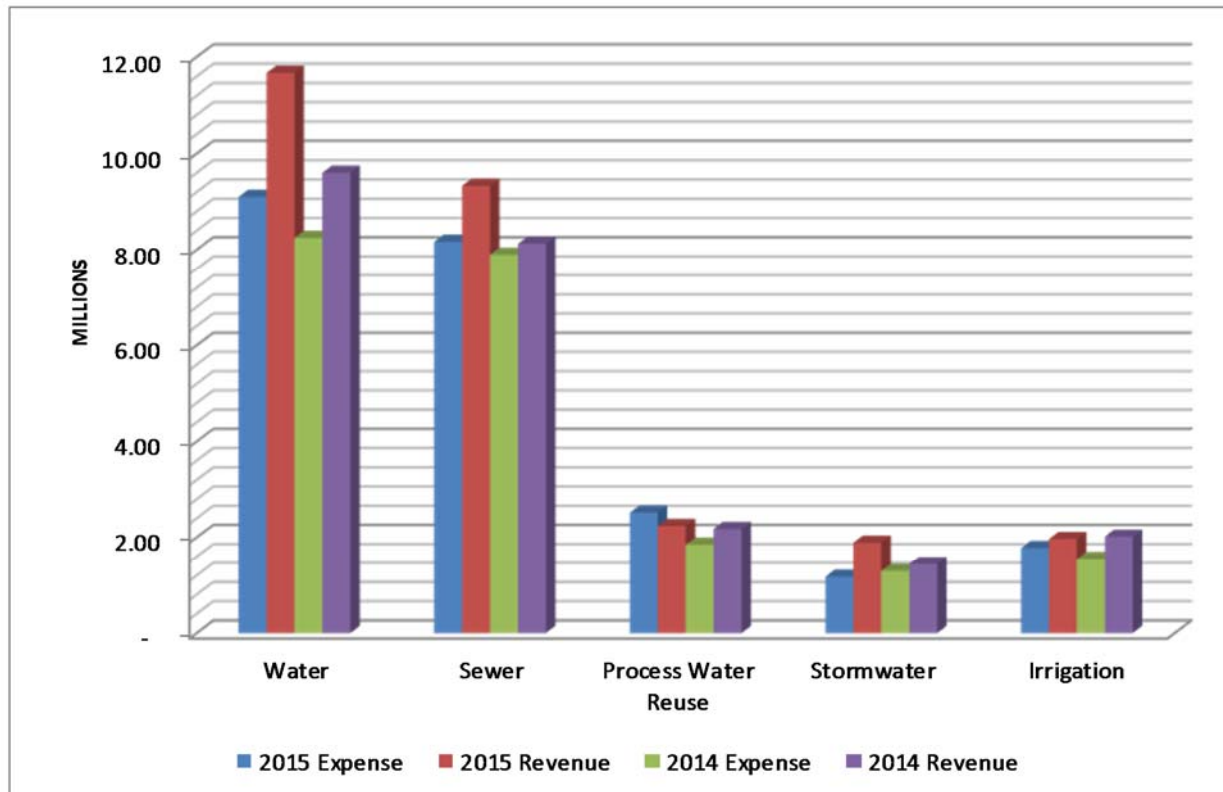


GOVERNMENTAL ACTIVITIES – EXPENSES AND PROGRAM REVENUES



Business-Type Activities. 20% of the increase in the City of Pasco’s net position is related to business-type activities. The total increase in net position for business-type activities was \$4,455, which included a net reduction in beginning balance due to the implementation of GASB 68 pension reporting. Additionally, charges for services increased by \$2,044 (11%). Effective, January 1, 2015, water consumption rates increased by 3% and effective April 1, 2015 Stormwater rates increased by approximately 11% (from \$4.40 to \$4.90 for residential).

UTILITY ACTIVITIES – EXPENSES AND PROGRAM REVENUES COMPARISON



Financial Analysis of the City’s Funds.

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

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

As of the end of the 2015, the City of Pasco governmental funds reported combined ending fund balances of \$35,579 which is an increase of \$9,478 from the prior year. Approximately 68% of this total amount, \$11,519 constitutes *unassigned fund balance* which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City of Pasco. At the end of 2015, unassigned fund balance of the general fund was \$11,919. As a measure of the general fund's liquidity, it may be useful to compare unrestricted, unassigned fund balance to total expenditures. This represents 31% of total expenditures.

The fund balance of the City of Pasco's General Fund increased by \$7,923 during 2015, which is 19% of current year revenues. Overall revenues increased by \$2,029 (5%) and total expenditures increased by \$3,177 (9%). General fund tax revenues increased by \$1,664 (6%). Property taxes increased approximately (3%) due to new construction and steady valuations, and sales taxes increased by \$951 (7%) with the continued steady economic recovery. Electric B&O taxes increased by \$537 (15%), due to an increase in electric rates and continued growth in residential and industrial customers. Water B&O taxes increased by \$24 (4%) due to continued growth and the 3% rate increase on water consumption, which went into effect January 1, 2015. The Telephone tax continues its historical decline trend \$127 (8%), as customers continue moving towards the use of internet and cell services, which are not subject to the telephone tax. Inter-governmental revenues from state liquor taxes increased by \$182 (9%) as the state is starting to incrementally share more of these taxes with local governments. However, these levels fall far short the amounts received in 2011 and earlier.

The City was able to increase the number of approved personnel positions, by adding twenty one positions. Contracts with Police and Fire were settled in 2015. Retroactive for firefighter pay was \$81 for the General Fund and \$41 for the Ambulance fund plus \$61 to the general fund for police officer pay. The General Fund revenues of \$41,345 exceeded expenditures of \$38,072 before transfers in/out.

Proprietary Funds. The City of Pasco enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail and separately states the activity of the Water/Sewer Utility from the internal service funds. Unrestricted net position of the utility fund at the end of 2015 was \$12,960. The working capital ratio is the current assets less current liabilities and is a measure of liquidity for the utility to meet its short term payment obligations. At the end of 2015 the utility is well-positioned as it has current assets of \$23,981 available to meet its current liability obligations of \$1,513, resulting in a working capital ratio of 15.8. The utility showed a loss before contributions and transfers of \$2,133. This was more than offset by \$6,090 in capital contributions. The City continues to invest in new infrastructure due to the growth of its population, as well as due to the need to address aging infrastructure issues. The City has a meter and service replacement program with the goal of replacing its meters on an average of once every ten years. Local improvement districts (LIDs) are used by the utility to supplement the rate payers' participation in capital construction.

General Fund Budgetary Highlights

The legal level of appropriation is at the fund level. The budget by function is shown to provide more detailed information. There were increases to the original budget of \$2,361 and \$167 in the expenditure and transfer out appropriations, respectively. \$1,977 of the increase was for the Public Safety function. The appropriation increases were due to a number of factors. \$243 in expenditure appropriation increases were due to retroactive pay for contract settlements with the police and fire unions and were part of an overall increase of \$734 in wages and benefit budgets. Also there was a total increase in budget authority of \$1,264 for interfund transfers (including transfers for construction of the new police facility) and \$1,255,396 increase for various services. Actual spending was in between (more than the original appropriation and less than the final appropriation).

Actual revenues were 109% of the original revenue budget and 113% of the final revenue budget. Revenues are generally estimated low in order to protect the city from unanticipated funding fluctuations. Actual total revenues exceeded actual total expenditures in by \$3,273.

Capital Asset and Debt Administration

Capital Assets. The City of Pasco's investment in capital assets for its governmental and business-type activities as of December 31, 2015 amounts to \$376,537 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements machinery and equipment, park facilities, roads, water and sewer treatment plants, etc. The total change in the City of Pasco's capital assets (net of depreciation) for the current year was an increase of \$16,499 for governmental activities and an increase of \$1,402 for business-type activities. \$23,396 and \$4,440 in noncash capital contributions were made to governmental and business-type activities, respectively, in 2015.

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

- Capital spending in governmental funds for 2015 was \$6,114: \$166 for general governmental purposes, \$3274 for public safety purposes, \$2,203 for transportation purposes and \$471 for culture and recreation purposes. The two largest projects for 2015 was \$3,184 spending for the Police Station (total project budget of \$6,747) and \$1,239 for Power Line Road improvements (total project budget of \$1,397).
- Construction spending in the utility fund (major component of business-activities) for 2015 was \$2,990. Construction spending was \$1,291 for water, \$1,109 for sewer, \$562 for the PWRF and very small amounts for stormwater and irrigation. The largest water project was to finish the Butterfield Water Treatment Plan Intake Screens which spent \$1,015 in 2015 (total project budget was \$1,479). The largest sewer projects was for the Wastewater Treatment Plant Primary Clarifier #3 which spent \$738 in 2015 (total project budget of \$2,622). The largest project for the PWRF was for the Aeration Pond which spent \$375 in 2015 (total project budget of \$1,648).

Additional information on the City of Pasco's capital assets can be found in note 3.C.

City of Pasco's Capital Assets at Year-End (in millions)
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 14.36	\$ 14.67	\$ 2.53	\$ 2.52	\$ 16.89	\$ 17.19
Construction in process	13.21	12.67	3.94	5.74	17.15	18.41
Buildings and structures	25.46	22.30	36.84	35.96	62.30	58.26
Other improvements	3.05	3.48	-	-	3.05	3.48
Machinery and equipment	6.52	5.88	7.64	8.30	14.16	14.18
Infrastructure	142.92	130.02	120.06	117.09	262.98	247.11
Total capital assets	<u>\$ 205.52</u>	<u>\$ 189.02</u>	<u>\$ 171.01</u>	<u>\$ 169.61</u>	<u>\$ 376.53</u>	<u>\$ 358.63</u>

Long-term Debt. At the end of 2015, the City of Pasco had total outstanding debt of \$57.36 million. Of this amount \$11.89 million comprised debt backed by the full faith and credit of the government. \$45.31 million of the City of Pasco bonded debt represents bonds secured primarily by specified revenue resources (e.g. revenue bonds). The city also has \$0.16 million in special assessment bonds.

Additional information on the City of Pasco's long term liabilities can be found in note 3.F.

City of Pasco's Bonds and Notes
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 11.89	\$ 3.32			\$ 11.89	\$ 3.32
Special Assesment Bonds	0.16	0.16			0.16	0.16
Loans & Notes	0.08	0.13	6.94	8.66	7.02	8.79
Revenue Bonds			38.29	28.03	38.29	28.03
	<u>\$ 12.13</u>	<u>\$ 3.61</u>	<u>\$ 45.23</u>	<u>\$ 36.69</u>	<u>\$ 57.36</u>	<u>\$ 40.30</u>

Economic Factors and Next Year's Budgets and Rates (amounts not in thousands)

In 2015, the Pasco economy was stable and continued to grow. The city issued a total of 2,140 building permits representing approximately \$168 million in construction value. Of the total permits, 243 were for new single-family residences which equates to \$62 million in construction value. The average value of a new home in Pasco was approximately \$257,000, in 2015. This stable economy was reflected in Standard & Poor's rating the 2013 utility bond issue as AA-/Stable and the 2015 General Obligation bond issue as AA-/Stable.

In 2012, the county's residents approved a new three-tenths of one percent sales tax increase devoted to criminal justice. This new revenue source funded a new four-person Street Crimes unit in the city's police department; paid for the replacement of the city's Municipal Court building; and funded the construction of the city's new Police Community Services Building, which broke ground in the spring of 2015.

In late in 2012, the city annexed a part of Franklin County. 2014 was the first year the city received the additional property taxes from the annexation. The annexed area was in a part of the county already surrounded by the city. In the spring of 2015, the city annexed the Road 80 area. This annexation covers 688 acres and represents an addition of property assessed at \$118,000,000.

The only fund larger than the General Fund is the Water/Sewer Utility Fund. The Water/Sewer Utility Fund has grown rapidly over the past few years as it provides services to the thousands of new homes built over the past decade. Every year the utility updates its six year rate plan. Annual rate increases are scheduled. 2016's rate increases are around 6% for base fees as well as 5% for water consumption; sewer's rate increase is around 10%; the ambulance rate increase is 63% (from \$7.75 to \$12.65 per month); and stormwater's rate increase is scheduled for 11%.

Requests for Information

This financial report is designed to provide a general overview of the City of Pasco's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Manager, PO Box 293, Pasco, WA 99301.

STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash & cash equivalents	\$ 23,224,309	\$ 6,130,532	\$ 29,354,841
Restricted cash:			
Program, grant, donations	846,689		846,689
Customer deposits	593,189	372,727	965,916
Unspent bond proceeds	4,876,062	13,386,417	18,262,479
Debt covenants	765,848	1,911,591	2,677,439
Investments	8,673,869	3,851,262	12,525,131
Receivables (net of allowances):			
Taxes	4,525,979		4,525,979
Customers	1,763,671	918,221	2,681,892
Grants	515,126	-	515,126
Due from Fiduciary Funds	24,680		24,680
Due from other governments	100,000		100,000
Inventories		196,767	196,767
Total current assets	45,909,422	26,767,517	72,676,939
Noncurrent assets:			
Restricted cash	455,173	3,888,654	4,343,827
Restricted investments - Debt/IBNR/LID	1,089,463	1,636,761	2,726,224
Special assessments	706,965	224,395	931,360
Net Pension Asset	4,984,645		4,984,645
Joint Ventures	47,959		47,959
Capital assets not being depreciated:			
Land	14,363,583	2,532,743	16,896,326
Construction work in progress	13,212,182	3,937,728	17,149,910
Capital assets net of accumulated depreciation:			
Buildings and structures	25,463,153	36,838,047	62,301,200
Other improvements	3,052,003		3,052,003
Machinery and equipment	6,518,847	7,637,122	14,155,969
Infrastructure	142,917,795	120,064,064	262,981,859
Total noncurrent assets	212,811,768	176,759,514	389,571,282
Total assets	258,721,190	203,527,031	462,248,221
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	2,805,491	428,493	3,233,984
LIABILITIES			
Current liabilities:			
Accounts payable	2,445,132	906,427	3,351,559
IBNR payable from restricted assets	1,156,914		1,156,914
Deposits payable from restricted assets	593,189	372,727	965,916
Accrued interest payable from restricted assets	-	244,824	244,824
Compensated absences - current	1,309,037	105,790	1,414,827
Loans due to other governments - current	44,418	1,620,576	1,664,994
Bonds - current	865,387	1,698,821	2,564,208
Total current liabilities	6,414,077	4,949,165	11,363,242
Noncurrent liabilities:			
Compensated absences	797,311	105,790	903,101
Net OPEB obligation	3,331,084		3,331,084
Notes payable	33,961	5,324,047	5,358,008
Bonds payable (net of premium)	11,182,347	36,586,708	47,769,055
Net pension obligation	8,039,698	1,812,873	9,852,571
Total noncurrent liabilities	23,384,401	43,829,418	67,213,819
Total liabilities	29,798,478	48,778,583	78,577,061
DEFERRED INFLOWS OF RESOURCES			
Pension related	2,620,435	274,929	2,895,364
NET POSITION			
Net investment in capital assets	198,277,512	139,165,969	337,443,481
Restricted for:			
Cemetery (nonexpendable)	467,698		467,698
Program, grant, donations	86,303		86,303
Streets and boulevards	6,203,814		6,203,814
Litter and housing abatement	354,419		354,419
Park development	2,134,710		2,134,710
Capital improvement	4,802,103		4,802,103
Economic development	107,573		107,573
Debt repayment/guarantee	6,240,106		6,240,106
Unrestricted	10,433,530	15,736,043	26,169,573
Total Net Position	\$ 229,107,768	\$ 154,902,012	\$ 384,009,780

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

Statement of Activities
For the Year Ended December 31, 2015

Functional Programs	Program Revenues				Net Revenue (Expenses) and Changes in Net Position		
	Expenses	Charges for Services, Fines & Licenses	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 8,238,384	\$ 5,283,224	\$ 10,436	\$ -	\$ (2,944,724)	\$ -	\$ (2,944,724)
Public safety	24,916,911	5,176,653	630,575		(19,109,683)		(19,109,683)
Transportation	16,373,738	3,671,964	512	23,929,191	11,227,929		11,227,929
Natural & economic environment	5,137,459	3,569,730	1,112,722		(455,007)		(455,007)
Culture and recreation	8,114,913	2,502,222	15,817		(5,596,874)		(5,596,874)
Interest on long term debt	444,435				(444,435)		(444,435)
Total governmental activities	63,225,939	20,203,793	1,770,062	23,929,191	(17,322,893)	-	(17,322,893)
Business-type activities:							
Water	9,099,085	9,059,643	-	2,605,481		2,566,039	2,566,039
Sewer	8,174,497	6,942,520	-	2,392,401		1,160,424	1,160,424
Process Water Reuse	2,524,179	2,244,414	-	-		(279,765)	(279,765)
Storm Water	1,168,440	1,428,874	27,182	430,193		717,809	717,809
Irrigation	1,778,656	1,303,460	-	662,312		187,116	187,116
Total business-type activities	22,744,857	20,978,911	27,182	6,090,387	-	4,351,623	4,351,623
Total primary government	\$ 85,970,796	\$ 41,182,704	\$ 1,797,244	\$ 30,019,578	(17,322,893)	4,351,623	(12,971,270)
General Revenues:							
Taxes:							
Property taxes					7,255,010		7,255,010
Sales taxes					13,645,706		13,645,706
B&O taxes					10,268,542		10,268,542
Excise taxes					2,443,535		2,443,535
Intergovernmental					1,740,857		1,740,857
Investment income and miscellaneous					251,887	103,339	355,226
Total general revenues and transfers					35,605,537	103,339	35,708,876
Change in net position					18,282,644	4,454,962	22,737,606
Net position - beginning (Adjusted - See Note 11)					210,825,124	150,447,050	361,272,174
Net position - ending					\$ 229,107,768	\$ 154,902,012	\$ 384,009,780

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

Balance Sheet
Governmental Funds
December 31, 2015

	General	Construction	Other Governmental	Total
ASSETS				
Cash & cash equivalents	\$ 4,440,230	\$ 1,081,105	\$ 14,755,722	\$ 20,277,057
Restricted cash				
Program, grant, donation	86,303		-	86,303
Customer deposits	549,920		43,269	593,189
Cemetery endowment			455,173	455,173
Unspent bond proceeds	4,876,062			4,876,062
Debt service			765,848	765,848
Investments	4,309,737		1,966,274	6,276,011
Restricted investments			692,935	692,935
Receivables (net of allowances):				
Taxes	4,018,099		507,880	4,525,979
Customers	1,267,905		495,766	1,763,671
Interfund loans	-		739,825	739,825
Grants	55,894	161,320	297,912	515,126
Special assessments & loans			706,965	706,965
Due from other funds	415,460			415,460
Due from other governments			100,000	100,000
Total assets	<u>20,019,610</u>	<u>1,242,425</u>	<u>21,527,569</u>	<u>42,789,604</u>
LIABILITIES				
Accounts payable	914,045	1,003,992	503,732	2,421,769
Interfund loans payable			1,776,936	1,776,936
Due to other funds			390,780	390,780
Deposits payable from restricted assets	549,920		43,269	593,189
Total liabilities	<u>1,463,965</u>	<u>1,003,992</u>	<u>2,714,717</u>	<u>5,182,674</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>1,266,530</u>		<u>761,853</u>	<u>2,028,383</u>
FUND BALANCES (DEFICITS)				
Nonspendable				
Cemetery permanent fund			467,698	467,698
Restricted				
Program, grant, donation	86,303			86,303
Street and boulevard			6,203,814	6,203,814
Litter & housing abatement			354,419	354,419
Park development			2,134,710	2,134,710
Capital improvements			4,802,103	4,802,103
Economic development			107,573	107,573
Debt repayment/guarantee	4,876,061		1,364,045	6,240,106
Committed				
Landfill claims	407,344			407,344
Special revenue funds			3,016,889	3,016,889
Construction projects		238,433		238,433
Unassigned	<u>11,919,407</u>		<u>(400,252)</u>	<u>11,519,155</u>
Total fund balances	<u>17,289,115</u>	<u>238,433</u>	<u>18,050,999</u>	<u>35,578,547</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 20,019,610</u>	<u>\$ 1,242,425</u>	<u>\$ 21,527,569</u>	

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

Long-term assets used in governmental activities are not financial resources and therefore are not reported in the government funds.	206,992,163
Deferred pension outflows are not available to pay for current period expenditures and therefore are not reported in the governmental funds.	2,770,560
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Proceeds from new debt and repayments of existing debts are recorded as resources and expenditures for fund reporting but are additions and reductions of liabilities for government wide reporting.	(24,589,739)
Deferred inflows and proceeds from asset sales in governmental funds is susceptible to full accrual therefore are not reported in the Statement of Net Activities. Other expenses are susceptible to full accrual and are reported in the Statement of Net Activities but not in the governmental funds.	(2,131,424)
Internal Service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of some internal service funds are included in the governmental activities in the statement of net position. Interfund loans between governmental activities are excluded.	10,487,661
Net position of governmental activities	<u>\$ 229,107,768</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	General Fund	Construction	Other Governmental	Total
REVENUES				
Taxes	\$ 30,188,368	\$ -	\$ 3,398,211	\$ 33,586,579
Licenses and permits	1,701,769		1,687,312	3,389,081
Intergovernmental revenue	2,143,188	413,157	3,300,739	5,857,084
Charges for services	5,795,848		5,802,570	11,598,418
Fines and forfeitures	1,030,170		178,563	1,208,733
Miscellaneous revenue	485,184	-	1,779,370	2,264,554
Total revenues	<u>41,344,527</u>	<u>413,157</u>	<u>16,146,765</u>	<u>57,904,449</u>
EXPENDITURES				
Current:				
General government	7,851,369	88,837	-	7,940,206
Public safety	21,274,372	46,466	3,947,482	25,268,320
Transportation	1,607,128	76	3,665,518	5,272,722
Natural & economic environment	1,781,977	-	3,207,342	4,989,319
Culture and recreation	4,659,142	-	2,697,716	7,356,858
Capital outlay:				
General government	80,899	85,049	-	165,948
Public safety	7,521	3,213,502	52,853	3,273,876
Transportation		2,194,187	9,132	2,203,319
Culture and recreation	-	471,295	-	471,295
Debt service:				
Principal	473,210		108,019	581,229
Interest	336,127		108,308	444,435
Total expenditures	<u>38,071,745</u>	<u>6,099,412</u>	<u>13,796,370</u>	<u>57,967,527</u>
Excess of revenues over (under) expenditures	3,272,782	(5,686,255)	2,350,395	(63,078)
OTHER FINANCING SOURCES (USES)				
Sale of assets			700,058	700,058
Debt proceeds - Bonds payable	8,795,000			8,795,000
Debt proceeds - Premium	307,734			307,734
Transfers in	138,000	5,891,327	1,323,049	7,352,376
Transfers out	(4,591,012)		(3,022,644)	(7,613,656)
Total other financing sources (uses)	<u>4,649,722</u>	<u>5,891,327</u>	<u>(999,537)</u>	<u>9,541,512</u>
Net change in fund balances	7,922,504	205,072	1,350,858	9,478,434
Fund balances - beginning (Adjusted- See Note 11)	<u>9,366,611</u>	<u>33,361</u>	<u>16,700,141</u>	<u>26,100,113</u>
Fund balances - ending	<u>\$ 17,289,115</u>	<u>\$ 238,433</u>	<u>\$ 18,050,999</u>	<u>\$ 35,578,547</u>

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

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2015**

(Continued from prior page)

Net change in fund balances - total governmental funds	\$ 9,478,434
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Amounts reported for governmental activities in the Statement of Activities are different because of the following reconciling items:

Governmental funds report capital outlays as expenditures. However, in the statement of net position they are reported net of depreciation as a capital asset. Capital assets contributed by private developers do not provide current resources and are not reported as revenues in the funds.	16,681,656
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The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any affect on net assets.	(8,521,505)
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Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(492,334)
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Some expenses such as for compensated absences, pension expense, gain on disposal of assets, etc. are reported in the Statement of Net Activities do not the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	224,620
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activity is reported with governmental activities. Interfund transfers between governmental funds are eliminated in the Statement of Net Activities.	911,773
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Change in net position of governmental activities (see page 27)	<u>\$ 18,282,644</u>
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The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget to Actual
General Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES				
Taxes	\$ 26,395,272	\$ 26,945,272	\$ 30,188,368	\$ 3,243,096
Licenses and permits	1,304,500	1,589,800	1,701,769	111,969
Intergovernmental revenue	1,566,170	1,954,770	2,143,188	188,418
Charges for services	6,008,521	5,879,209	5,795,848	(83,361)
Fines and forfeitures	1,022,650	1,022,650	1,030,170	7,520
Miscellaneous revenue	437,465	467,465	485,184	17,719
Total revenues	<u>36,734,578</u>	<u>37,859,166</u>	<u>41,344,527</u>	<u>3,485,361</u>
EXPENDITURES				
Current:				
General government	8,289,871	8,838,193	7,851,369	(986,824)
Public safety	19,599,303	21,576,666	21,274,372	(302,294)
Transportation	1,811,064	1,813,264	1,607,128	(206,136)
Natural & economic environment	1,815,701	1,855,252	1,781,977	(73,275)
Culture and recreation	4,618,779	4,729,407	4,659,142	(70,265)
Capital outlay:				
General government	375,250	51,200	80,899	29,699
Public safety	137,300	144,821	7,521	(137,300)
Debt service:				
Principal	467,316	467,316	473,210	5,894
Interest	107,714	107,714	336,127	228,413
Total expenditures	<u>37,222,298</u>	<u>39,583,833</u>	<u>38,071,745</u>	<u>(1,512,088)</u>
Excess of revenues over (under) expenditures	(487,720)	(1,724,667)	3,272,782	1,973,273
OTHER FINANCING SOURCES (USES)				
Debt proceeds and other miscellaneous	8,333,423	9,682,055	8,795,000	(887,055)
Debt proceeds - bond premium			307,734	307,734
Interfund loans repaid	239,118	239,118	239,118	-
Transfers in	138,000	138,000	138,000	-
Interfund loans issued			(239,118)	(239,118)
Transfers out	(8,790,266)	(10,054,450)	(4,591,012)	5,463,438
Total other financing uses	<u>(79,725)</u>	<u>4,723</u>	<u>4,649,722</u>	<u>4,644,999</u>
Net change in fund balances	(567,445)	(1,719,944)	7,922,504	6,618,272
Fund balances - beginning (Adjusted See Note 11)	<u>6,501,765</u>	<u>9,383,161</u>	<u>9,366,611</u>	<u>(16,550)</u>
Fund balances - ending	<u>\$ 5,934,320</u>	<u>\$ 7,663,217</u>	<u>\$ 17,289,115</u>	<u>\$ 6,601,722</u>

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

Statement of Net Position
Proprietary Funds
December 31, 2015

	Water/Sewer Utility	Internal Service
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,838,859	\$ 5,238,925
Restricted cash equivalents:		
Claims incurred but not reported (IBNR)		760,386
Customer deposits	372,727	
Unspent bond proceeds	13,386,417	
Revenue bond covenants	1,911,591	
Investments	3,356,308	2,892,812
Receivables (net of allowances):		
Customers	918,221	-
Inventory	196,767	-
Total current assets	<u>23,980,890</u>	<u>8,892,123</u>
Noncurrent assets:		
Restricted cash - bond reserve	3,888,654	-
Restricted investments- bond covenants & IBNR	1,636,761	396,528
Special assessments	224,395	-
Interfund loan		1,037,110
Capital assets not being depreciated:		
Land	2,532,743	-
Construction work in progress	3,937,728	-
Capital assets net of accumulated depreciation:		
Buildings and structures	36,838,047	-
Machinery and equipment	6,010,451	5,890,745
Infrastructure	120,064,064	-
Total noncurrent assets	<u>175,132,843</u>	<u>7,324,383</u>
Total assets	<u>199,113,733</u>	<u>16,216,506</u>
DEFERRED OUTFLOWS		
Pension related	<u>428,493</u>	<u>34,931</u>
LIABILITIES		
Current liabilities:		
Accounts payable	895,550	34,240
IBNR payable from restricted assets		1,156,914
Other liabilities		
Customer deposits payable from restricted assets	372,727	
Accrued interest payable from restricted assets	244,824	
Compensated absences - current portion	105,790	-
Loans due to other governments - current portion	1,620,576	
Revenue bonds - current portion	1,698,821	
Total current liabilities	<u>4,938,288</u>	<u>1,191,154</u>
Noncurrent liabilities:		
Compensated absences	105,790	-
Loans due to other governments	5,324,047	-
Revenue bonds payable (net of premium)	36,586,708	-
Net pension obligation	1,812,873	147,789
Total noncurrent liabilities	<u>43,829,418</u>	<u>147,789</u>
Total liabilities	<u>48,767,706</u>	<u>1,338,943</u>
DEFERRED INFLOWS		
Pension related	<u>274,929</u>	<u>22,412</u>
NET POSITION		
Net investment in capital assets	137,539,298	5,890,745
Unrestricted	12,960,293	8,999,337
Total net position	<u>\$ 150,499,591</u>	<u>\$ 14,890,082</u>
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise fund	<u>4,402,421</u>	
Net position of business-type activities (see page 26)	<u>\$ 154,902,012</u>	

The notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended 12/31/2015

	Water/Sewer Utility	Internal Service
OPERATING REVENUES		
Permits	\$ 52,163	
Charges for services	20,877,438	\$ 5,842,487
Miscellaneous	49,310	3,415,982
Total operating revenues	<u>20,978,911</u>	<u>9,258,469</u>
OPERATING EXPENSES		
Depreciation	6,455,603	852,317
Salaries and wages	3,016,535	337,189
Personnel benefits	1,284,959	144,047
Supplies	1,730,410	731,402
Services	9,169,745	6,144,862
Total operating expenses	<u>21,657,252</u>	<u>8,209,817</u>
OPERATING INCOME	<u>(678,341)</u>	<u>1,048,652</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	52,534	88,776
Investment loss		(3,777)
Rents and leases	50,805	-
Grant	27,182	-
Gain on sale of capital assets	-	14,915
Interest expense	(1,585,679)	-
Total nonoperating revenues (expenses)	<u>(1,455,158)</u>	<u>99,914</u>
Income (loss) before contributions and transfers	(2,133,499)	1,148,566
Capital contributions	6,090,387	-
Transfers in	-	319,280
Transfers out	<u>-</u>	<u>(58,000)</u>
Changes in net position	3,956,888	1,409,846
Prior period adjustments	-	-
Net position - beginning (Adjusted-See Note 11)	<u>146,542,703</u>	<u>13,480,236</u>
Net position - ending	<u>150,499,591</u>	<u>14,890,082</u>
Changes in net position	3,956,888	
Adjustment for the net effect the current year activity between the internal service funds and the enterprise fund	<u>498,074</u>	
Change in net position of business-type activities (page 27)	<u>\$ 4,454,962</u>	

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended 12/31/2015

	Water/Sewer Utility	Internal Service
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 20,944,816	\$ 9,258,469
Payments to employees	(4,419,572)	(482,653)
Payments to suppliers	(10,397,730)	(6,189,956)
Net cash provided by operating activities	<u>6,127,514</u>	<u>2,585,860</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants	27,182	-
Rents and leases		
Net cash provided from noncapital financial activities	<u>27,182</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of assets	-	10,629
Acquisition of capital assets	(3,373,633)	(1,370,612)
Principal paid to refinance existing debt	(4,080,000)	
Principal paid on existing debt	(3,359,488)	-
Interest paid on debt	(1,615,954)	-
Bond proceeds received	16,003,286	-
Payments received from notes and loans	-	-
Transfers in (out) for capital	-	261,280
Capital charges	1,647,641	
Capital grant and contribution proceeds	84,696	-
Net cash used by capital and related financing activities	<u>5,306,548</u>	<u>(1,098,703)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments sold and earnings	52,534	598,098
Investments purchased	(3,006,908)	(1,300,571)
Net cash provided from investing activities	<u>(2,954,374)</u>	<u>(702,473)</u>
Net increase in cash	8,506,870	784,684
Beginning cash	<u>14,891,377</u>	<u>5,214,627</u>
Ending cash	<u>\$ 23,398,247</u>	<u>\$ 5,999,311</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ (678,341)	\$ 1,048,652
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	6,455,603	852,317
Changes in assets and liabilities		
Decrease in customer receivables	40,347	-
Decrease in inventories	97,034	-
Increase in accounts payable	405,391	686,308
Decrease in accounts customer deposits payable	(74,442)	
Decrease in compensated absences	(100,695)	
(Increase) decrease in pension deferred outflow	(209,923)	(17,113)
Increase (decrease) in pension obligation	482,055	39,298
Increase (decrease) in pension deferred inflow	<u>(289,515)</u>	<u>(23,602)</u>
Net cash provide by operating activities	<u>\$ 6,127,514</u>	<u>\$ 2,585,860</u>
NON CASH ACTIVITIES		
Capital contributions	\$ 4,439,992	-
Total noncash activities	<u>\$ 4,439,992</u>	<u>\$ -</u>

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

Statement of Net Position
Fiduciary Funds
December 31, 2015

	Pension and Other Post-Employment Benefits	Agency
ASSETS		
Cash & cash equivalents	\$ 145,247	\$ 370,550
Investments		
LID Note	40,301	
Federal Agency	53,571	
Mutual Funds	4,564,624	
Total assets	<u>4,803,743</u>	<u>370,550</u>
LIABILITIES		
Due to others	24,680	370,550
Net Pension Obligation	<u>1,185,733</u>	
Total liabilities	<u>1,210,413</u>	<u>\$ 370,550</u>
NET POSITION		
Held in trust for pension benefits/other post employment benefits	<u>\$ 3,593,330</u>	

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

Statement of Changes in Net Position
Fiduciary Funds
For the year ended December 31, 2015

	Pension and Other Post-Employment Benefits
ADDITIONS	
Taxes	\$ 54,506
Investment earnings	
Interest	5,093
Dividends	326,120
Net decrease in market value of investments	(355,156)
Total Additions	<u>30,563</u>
DEDUCTIONS	
Pension benefits	82,477
Medical premiums	105,048
Administrative expenses	6,372
Total deductions	<u>193,897</u>
Change in net position	(163,334)
Net position - beginning (adjusted - see note 11)	<u>3,756,664</u>
Net position - ending	<u><u>\$ 3,593,330</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Pasco have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Pasco was incorporated on May 4, 1891 and operates under the laws of the state of Washington applicable to a Non-Charter Code City with a Council/Manager form of government. As required by the generally accepted accounting principles the financial statements present City of Pasco, as a primary government unit. The City of Pasco does not have any component units.

B. Government-Wide and Fund Financial Statements

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

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

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

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 and fiduciary 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchises 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. Entitlements are recorded as revenues when all eligibility requirements have been met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, pension, and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

The City of Pasco reports the following major governmental funds:

- *The General Fund:* The General (or current expense) Fund is the City of Pasco's primary operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in separate fund.
- *The Construction Fund:* the Construction Fund is a capital project fund used to account for significant construction and capital acquisition related to governmental activities.

The City of Pasco reports the following major proprietary fund:

- *The Water/Sewer Fund:* the Water/Sewer Fund accounts for water, sewer, water reuse, storm water and irrigation utility activities.

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

- *Special Revenue funds* are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for a particular purpose.
- *Debt Services funds* are used to account for the resources accumulated and payments made for principal and interest on long –term general obligation debt of governmental funds.
- *Permanent funds* are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the government’s program.
- *Internal Service funds* are used to account for equipment replacement and operations, central stores, as well as medical/dental insurance services provided to other departments on a cost-reimbursement basis.
- *Pension Trust funds* are used to account for the sources and uses of funds to meet the pension benefit and other post-employment benefit obligations made to firemen covered under the Plan prior to the creation of the Law Enforcement Officers and Fire Fighters’ (LEOFF) pension system in 1970.
- *Agency funds* are used to report resources held by the city in a purely custodial capacity on behalf of the Pasco Public Facility District, the Animal Control Authority and on behalf of all employees for Payroll Clearing and those employees with Flexible Spending Accounts.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions are for business taxes the utility pays to the general fund. Likewise, other charges between the government’s utility functions and certain other service functions and various other functions of the government have not been eliminated. Eliminations 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, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. 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 Water/Sewer Fund are charges to customers. The major services provided by the proprietary fund are water, sewer, storm drain, irrigation and industrial waste water processing. Operating expenses for enterprise funds and internal service funds 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.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general and special revenue and on a modified accrual basis. Budgets are adopted at the fund level.

Appropriations for all funds lapse at year-end. Budgets for capital outlays are re-appropriated until the purpose of the appropriation has been accomplished or abandoned.

2. Amending the Budget

The City Manager is authorized to transfer budgeted amounts within the funds. However, any revisions that alter the total appropriations of a fund, or which affects the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When City Council determines it is in the best interest of the City of Pasco to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearings.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities, Deferred Inflows, Deferred Outflows, Fund Balance/Net Position**1. *Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the city's investment policies authorize the city to invest in obligations of the U.S. treasury, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The interest on these investments is prorated to the various funds on a monthly basis.

The City's deposits are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in the multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments are generally reported at fair value for the items held. The LGIP operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. See additional deposit investment and restricted asset information in note 4. A.

2. *Receivables and payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund loans payable/receivable". 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".

Loans between funds, as reported in the fund financial statements, are included as a liability in applicable governmental funds so that the indicated fund balance represents amounts available for appropriation and expendable available financial resources.

Taxes receivable consist of property taxes, sales taxes, interfund taxes, business and occupation taxes, and excise taxes. Property taxes are levied January 1 on property values assessed as of December of the prior year. The tax levy is divided into two billings; the first billing is due April 30 and the second is due October 31.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. The allowance for uncollectible accounts for the ambulance fund is approximately 21% of the outstanding receivable at December 31, 2015.

Grants receivable are reported for grants where qualified expenditures have been made prior to the end of the year.

Other receivables include municipal court receivables, and interest receivable. Accrued interest at year end consists of amounts earned by investments, notes and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefitted. As of December 31, 2015 \$553,610 of Governmental and \$0 of Business-type special assessments were delinquent. Assessed property owners are responsible for debt repayment. The city guarantee's the debt to the extent of the LID guarantee fund. Governmental-type special assessments are for street improvements; Business Type special assessments are for sewer infrastructure.

Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. Since the City is unable by law to grant credit to any entity, all loans receivable are related to grant monies received from other agencies which have authorized the loan as part of the grant process. Repayment of these loans are used to establish revolving loan funds for loans that match the original grant purpose.

3. *Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable*

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

4. *Inventories*

There are currently no inventories in governmental funds. Inventories in proprietary funds are valued using a floating average of costs, which approximates market value.

5. *Restricted Assets and Liabilities*

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, in the enterprise fund. The current portion of related liabilities is shown as *Payables from Restricted Assets*.

6. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The government reports infrastructure assets on a network and subsystem basis. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs and street preservation activities that do not add to the value of the asset or materially extend asset lives are not capitalized. Assets are depreciated over their useful lives using the straight line depreciation method.

Major outlays for capital assets and improvements are reported as Construction Work in Progress as projects are constructed. Interest, if material to the cost of the asset that is incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital Assets and improvements are capitalized once the project is completed. There were no capitalized interest costs capitalized by the City during fiscal year 2015.

Capitalization thresholds (the dollar value above which an asset acquisitions are added to the capital asset accounts and estimated useful lives of capital assets are as follows:

<u>Assets</u>	<u>Threshold</u>	<u>Useful Lives</u>
Land	All	
Building & Structure	\$5,000	5 - 50
Other improvements	\$5,000	5 - 100
Machinery & Equipment & Vehicles	\$5,000	1 - 50
Infrastructure	\$5,000	5 - 50

7. Deferred Outflows/Inflows of Resources

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

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

The city has one type of item, unavailable revenues which arises only under a modified accrual basis of accounting, which qualifies as a deferred inflow. Accordingly unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for 2015 as follows:

- a. Uncollected property taxes levied.
- b. Unbilled special assessments levied against benefited property for the cost of local improvements. An allowance for uncollectible accounts is not necessary since the assessments are liens against the property benefited.
- c. Rain checks and gift certificates issued by the golf course and certain headstones and liner sales by the cemetery which obligate the city to future services.

In addition to unavailable revenues, changes in pension assumptions and calculation variables also create deferred inflows and deferred outflows. These are reported in the enterprise funds and at the government wide level in the Statement of Net Position.

8. *Compensated Absences*

The City accrues accumulated unpaid vacation and sick leave and associated employee related costs when earned (or estimated to be earned) by the employee. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In governmental funds, such amounts are not accrued using the modified accrual basis of accounting but are reported as a liability in the government-wide financial statements.

Sick leave may be accumulated up to a maximum of 960 hours for all employees except firefighters. Firefighter sick leave may be accumulated up to a maximum of 840 hours. Upon resignation, retirement or death sick leave is payable at a rate of 25% of accrued hours up to a maximum accrual base of 720 hours. Vacation leave may be accumulated up to a maximum of one and a half times the employee's annual vacation accrual rate and is payable upon resignation, retirement or death.

9. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose,

benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Long-term Obligations

In the government-wide 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 statements of net position.

Bond premiums and discounts, as well as issuance costs, when material, 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.

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 debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as professional service costs.

11. Fund Balance and Fund Flow Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed* fund balance classification includes amounts that can be used only for specific purposes determined by formal action of the government's highest level of decision-making authority. The city council is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has not adopted a specific flow of funds policy relating to the use of restricted and unrestricted resources when both are available. Therefore the statements are prepared

using the default option provided in GASB 54 which provides that when both restricted and unrestricted resources are available, restricted resources are used first.

In the fund financial statements, governmental funds report restrictions of fund balance as follows:

Nonspendable fund balance - includes amounts that are not in spendable form such as inventory or are required to be maintained intact such as the principal of a permanent fund.

Restricted fund balance - includes amounts that can be spent only for the specific purpose stipulated by external resource providers such as for grant providers, bondholders, higher levels of government, or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the city council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.

Assigned fund balance – includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official designated by the governing body to which the governing body designates authority.

Unassigned fund balance - includes amounts that are available for any purpose.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position.**

The governmental fund balance sheets includes a 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 that “Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds”. The following shows the detail of these capital asset changes net of accumulated depreciation:

Beginning balance of capital assets excluded from fund level:	
Joint venture	\$ 59,797
Land	14,671,115
Construction in process	12,455,895
Building	22,299,317
Other improvements	3,484,617
Equipment	2,332,202
Infrastructure	130,022,919
Pension asset	5,675,437
Current year change in pension asset	(690,792)
Current year spending in construction work in progress	5,965,623
Current year capital purchases	148,815
Current year capital donations received	23,396,410
Current year decrease in joint venture	(11,838)
Current year depreciation	(12,817,255)
Net adjustment to add to government-wide fund balance to arrive at	
<i>Net position-governmental activities</i>	<u>\$ 206,992,163</u>

Another element of that reconciliation explains that “Long-term liabilities are not due and payable in the current period and are not reported in the funds.” The following show the detail of these liability changes:

Beginning balance of long-term liabilities excluded from fund level:	
Compensated absences	\$ (2,048,258)
OPEB obligation	(2,523,460)
Pension obligation	(5,793,396)
Bonds and notes payable	(3,604,608)
Current year changes to pension obligation	(2,098,513)
Issuance of new debt	(9,102,733)
Current year principal payments reducing debt	<u>581,229</u>
Net adjustment to reduce government-wide fund balance to arrive at	
<i>Net position-governmental activities</i>	<u>\$ (24,589,739)</u>

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

The governmental funds’ 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. The first element of that reconciliation relates to capital activity as follows:

Capital Outlays for:	
Construction in progress	5,965,623
Machinery and equipment	148,716
Contributed capital assets	23,396,410
Current year depreciation	(12,817,255)
Loss on joint venture	<u>(11,838)</u>
Net capital activity	<u>16,681,656</u>

The second element of that reconciliation relates to debt activity as follows:

New debt issued	(9,102,734)
Debt repayment	<u>581,229</u>
Net debt activity	<u>(8,521,505)</u>

NOTE 3 – DETAILED NOTES ON ALL FUNDS**A. Deposits, investments and restricted assets**

As of December 31, 2015 the government had the following:

	<u>Fair Value</u>	<u>Weighted Average Maturities (Years)</u>
Local Government Investment Pool		
Total Invested Cash Equivalents	\$34,374,853	N/A
Investments in Federal Agencies	15,304,926	11.4
Investment in Mutual Funds	4,559,064	N/A
Investment in Notes	<u>40,301</u>	5.34
Total fair value	<u>\$54,279,144</u>	
Portfolio weighted average maturity		<u>11.4</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the maturity of investments. Investments over one year require the City Manager's approval. In addition, to achieve its financial objective of maintaining liquidity to meet all operating requirements, the City typically selects investments that have shorter average maturities. The city's investment policy does not specifically address interest rate risk.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The city investment policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United States' government bonds, notes bills; certificates of deposits from financial institutions that participate in Washington State's Public Deposit Protection Commission's list of "Qualified Public Depositories"; bankers acceptances, repurchase agreements and the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The investment policy for "credit risk" does not extend beyond the types of authorized investments and the concentration of credit risk described below. As of December 31, 2014 the City's investments in agency securities were all rated AAA. The LGIP is not registered with the SEC and the fair value of the city's position in the pool is the same as the value of the pool shares. The LGIP is regulated by the state of Washington's state finance committee. Credit risk is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, insured demand deposit accounts or certificates of deposit.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the policy of the city to diversify its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific class of securities. With the Exception of U.S. Treasury securities and the State Treasurer's Local Government Investment Pool (LGIP) no more than twenty percent of the city's total investment portfolio should be invested in a single security type and not more than twenty percent should be invested with a single financial institution.

Concentration of credit risk as a percentage of total investments:

Issuer	Fair Value	%
Local Government Investment Pool	34,374,853	63%
SBA Participation	362,024	1%
Financing Corp	2,018,120	4%
Federal Nat'l Mortgage Assoc	3,968,170	7%
Federal Home Loan Mtg Corp	6,724,674	12%
FICO	2,231,938	4%
AmFunds Mutual Funds	4,559,064	8%
City of Pasco	40,301	0%
	<u>54,279,144</u>	<u>100%</u>

Custodial credit risk – deposits. This is the risk that in the event of a bank failure, the governments' deposits may not be returned. The city's policy states that the maximum amount to be placed with any one depository shall not exceed the net worth of the institution (at the time of investment) as determined by the State of Washington Public Deposit Protection Commission (PDPC). According to the PDPC Act implemented August 11, 1969 financial institutions holding public funds have requirements to collateralize those funds. The maximum liability of a public depository is equal to ten percent of all public deposits held by that depository at the time of the most recent Commission report date or the average of the balances of public deposits on the four most recent Commission report dates, whichever is greater. This amount, which is subject to audit, represents the maximum amount the Commission can assess each depository in the event of a loss due to default of a participating depository. The city had \$22,926,099 on deposit with US Bank on December 31, 2015. The FDIC insures those deposits up to \$250,000. US Bank is required to collateralize 10% of the remaining funds which is \$2,292,610. The temporary custodial credit risk for uncollateralized deposits at US Bank was \$20,383,489 on December 31, 2015.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will be able to recover the value of its investments or other collateral securities that are in the possession of an outside party. The city limits its custodial credit risk by holding investments that are insured and are registered or held by the city's agent in the city's name. Certificates of deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Restricted assets. The corpus of permanent funds is included in restricted assets. The Water/Sewer utility issued bond proceeds prior to 2015 for construction projects which were not fully expended by the end of the current year. The remaining funds are restricted for construction purposes. Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the balance sheet because they are maintained in a separate account and their use is limited by applicable bond covenants. The "bond debt service" account is used by the Water/Sewer fund to report resources set aside to subsidize potential deficiencies from the Water/Sewer operations that could adversely affect debt service payments. The Water/Sewer fund has constructed projects and assessed special assessments to recover certain portions of the construction costs. Those assessments receivable are pledged to pay for the related special assessment debt and are therefore

restricted to that purpose. Cash from customers as deposits are also restricted. Restricted assets (cash and investments) are composed of the following:

	<u>Temporary Restrictions</u>	<u>Permanent Restrictions</u>
<i>City View Cemetery Endowment</i>		\$455,173
<i>Program, grant, donations:</i>		
Recreation Donations	9,437	
Bi-centennial Contribution	6,264	
Drug Forfeit, Evidence, Federal Share	70,602	
Claims incurred but not reported (IBNR) cash	760,386	
<i>Customer Deposits:</i>		
Governmental Funds Customer Deposits	593,189	
Water/Sewer Customer Deposits	372,727	
<i>Unspent Bond Proceeds:</i>		
Police Bond Unspent Bond Proceeds	4,876,061	
Water/Sewer Unspent Bond Proceeds	13,386,417	
<i>Debt Covenants:</i>		
Water/Sewer Debt Service account	1,911,591	
Water/Sewer Debt Reserve account	3,888,654	
Cash in Debt Service funds	765,848	
<i>Restricted Investments:</i>		
Water/Sewer Debt covenants	1,636,761	
Incurred But Not Reported (IBNR)	396,528	
LID Guarantee	692,935	
Totals	<u>\$29,367,401</u>	<u>\$455,173</u>

B. Receivables

Taxes receivable. Taxes receivable consist of several types of taxes: property taxes, sales taxes and business & occupation taxes, excise taxes, gambling and admission taxes.

Property taxes. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 10th day of the following month.

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year property tax revenues are recognized when cash is collected and deferred property tax revenue is reduced. Prior year tax levies were recorded using the same principle. The reported balances include tax payments from the county received through December 31, 2015. Tax receipts received by the county in December and January but remitted to the City in January and February are included as part of the tax receivable amount reported. Delinquent taxes totaled \$268,762 and since these funds are not available revenue recognition is deferred. Subsequent collections of delinquent amounts will be recorded in revenue in the period actually received.

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

- a. Except as otherwise provided for, the levy for taxing districts in any year shall be set so that the regular property taxes payable in the following year shall not exceed the limit factor of 101% multiplied by the amount of regular property taxes lawfully levied for such district in the highest of the three most recent years in which such taxes were levied for such district plus an additional dollar amount calculated by multiplying the increase in assessed value in that district resulting from new construction, improvements to property, and any increase in the assessed value of state-assessed property by the regular property tax levy rate of that district for the preceding year.
- b. 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. Effective November 29, 2007 Washington State House Bill (HB) 2416 reinstated the one percent property tax limit factor adopted by voters under Initiative No. 747 following the invalidation of that initiative by the courts. The provisions of HB 2416 are retroactive to and prospective from taxes levied for collection in 2002. This retroactivity extinguishes the additional levying capacity resulting from the November 2007 court ruling but let's stand any banked capacity accumulated prior to the court ruling and the authority to continue to bank future unused capacity.

In November 2015, the City approved an ordinance establishing the operating levy for 2016 of \$7,625,727 based on an assessed valuation of \$3,937,446,202 and an estimated rate of \$1.93671 per \$1,000 of assessed value. In November 2014, the City approved an ordinance establishing the operating levy for 2015 of \$7,159,507 based on an assessed valuation of \$3,687,411,102 and an estimated rate of \$1.94160802 per \$1,000 of assessed value.

Additionally, in November 2015, the city levied an additional amount to cover bond payments for the 1999 UTGO bond for the Library Remodel (\$53,959) and the 1999 UTGO bond for the Fire Station (\$68,341).

Sales and excise taxes. The state is the collection agent for sales and real estate excise taxes in the State of Washington. The vendor has until approximately the end of the following month to remit sales tax to the state for taxable sales. The state then has approximately another month to remit the city's portion of the tax to the city. The city's basic sales tax rate is one-half of one percent.

Utility occupation taxes. The city assessed a gross revenue tax and use on certain utilities within the city. The rate is for these taxes are eight and one-half percent.

Other receivables. As of December 31, 2014 the only major fund of the city to have an allowance for uncollectible accounts was the General Fund. The gross Municipal Court Receivable is \$10,385,108 of which \$9,381,907 is not expected to be collected (allowance for uncollectible accounts) and thus only the net amount of \$1,003,201 is included in the financial statements. Non-major funds receivable balances include the applicable allowance for uncollectible accounts (which relates to ambulance services) of \$100,000.

Special assessments and unavailable revenue. Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds were as follows:

Unavailable Revenue – Property Taxes	\$ 268,762
Unavailable Revenue – Special Assessments/Loans	553,610
Unavailable Revenue – Municipal Court	1,003,201
Unavailable Revenue – Other	<u>202,810</u>
Total Unavailable Revenues	<u>\$2,028,383</u>

Loans receivable. Loans receivables consist of amounts owed on an open account from private individuals or organizations for goods and services rendered. Since the City is unable by law to grant credit to any entity, all loans receivable are related to grant monies received from other agencies which have authorized the loan as part of the grant process. Repayments of these loans are used to establish revolving loan funds for loans that match the original grant purpose. The long term portion of those loans receivable are included in reserved fund balance as the assets are not available to liquidate liabilities in the current period.

C. Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

Governmental Activities:	Beginning Balance 01/01/15	Current Period Increases	Current Period Decreases	Ending Balance 12/31/15
Capital assets, not being depreciated				
Land	\$ 14,671,115	\$ 387,950	\$ 695,482	\$ 14,363,583
Construction in progress	12,668,345	7,009,713	6,465,875	13,212,182
Total capital assets, not being depreciated	27,339,460	7,397,663	7,161,357	27,575,765
Capital assets, being depreciated:				
Building & structure	37,666,512	4,163,160	-	41,829,672
Other improvements	9,240,869	113,267	-	9,354,136
Machinery and equipment	12,881,148	1,498,211	86,853	14,292,506
Infrastructure	201,801,093	23,848,512	-	225,649,605
Total capital assets being depreciated	261,589,622	29,623,150	86,853	291,125,919
Less accumulated depreciation:				
Building & structure	15,367,195	999,324	-	16,366,519
Other improvements	5,756,252	545,881	-	6,302,133
Machinery and equipment	6,998,469	858,067	82,877	7,773,659
Infrastructure	71,778,274	10,953,536	-	82,731,810
Total accumulated depreciation	99,900,190	13,356,808	82,877	113,174,121
Total capital assets, being depreciated, net	161,689,432	16,266,342	3,976	177,951,798
Governmental activities capital assets net	\$ 189,028,892	\$ 23,664,005	\$ 7,165,333	\$ 205,527,563

Business Type Activities:	Beginning Balance 01/01/15	Current Period Increases	Current Period Decreases	Ending Balance 12/31/15
Capital assets, not being depreciated				
Land	\$ 2,520,925	\$ 11,818	\$ -	\$ 2,532,743
Construction in process	5,715,594	3,745,131	5,522,997	3,937,728
Total capital assets, not being depreciated	8,236,519	3,756,949	5,522,997	6,470,471
Capital assets, being depreciated:				
Building & structure	73,600,187	3,448,048		77,048,235
Machinery and equipment	11,137,437	342,989	16,633	11,463,793
Infrastructure	152,748,186	6,168,928		158,917,114
Total capital assets being depreciated	237,485,810	9,959,965	16,633	247,429,142
Less accumulated depreciation:				
Building & structure	37,636,743	2,573,445		40,210,188
Machinery and equipment	2,841,452	1,001,852	16,633	3,826,671
Infrastructure	35,659,983	3,193,067		38,853,050
Total accumulated depreciation	76,138,178	6,768,364	16,633	82,889,909
Total capital assets, being depreciated, net	161,347,632	3,191,601	-	164,539,233
Business activities capital assets net	\$ 169,584,151	\$ 6,948,550	\$ 5,522,997	\$ 171,009,704

Depreciation expense by function:

Governmental activities:

General government	\$	380,285
Public Safety		406,317
Transportation		11,259,284
Economic environment		205,628
Culture & recreation		1,105,296
Total depreciation expense - governmental activities	\$	<u>13,356,810</u>

Business-type activities:

Water	\$	2,527,488
Irrigation		523,710
Sewer		3,200,622
Process water reuse facility		258,049
Stormwater		258,495
Total depreciation expense- business-type activities:	\$	<u>6,768,364</u>

Construction commitments

The City of Pasco has active construction projects as of December 31, 2015. The projects include street construction and various utility constructions. At year end, the city's commitments with contractors are as follows:

CAFR CATEGORY	PROJECT COMMITMENT	SPENT TO DATE	REMAINING COMMITMENTS
STREET	5,059,847	1,589,464	3,470,383
GENERAL	5,622,629	5,622,629	-
WATER	1,896,761	698,294	1,198,467
SEWER	6,086,405	1,105,748	4,980,657
PWRF	4,084,050	2,051,983	2,092,067
STORMWATER	192,166	35,795	156,371
IRRIGATION	57,469	-	57,469
TOTAL	\$ 22,999,327	\$ 11,103,913	\$ 11,955,414

D. Interfund loans receivable, payable and transfers***Interfund loans***

The composition of interfund loan and interfund due to/from balances as of December 31, 2015 is as follows:

Interfund Loan Receivable	Loan Purpose	Original Loan Amount	Outstanding Loan Amount	Interfund Loan Payable	Due in More Than 1 Year
General Fund	Temporary cash flow	390,780	390,780	Nonmajor Special Revenue	-
General Fund	Temporary cash flow	24,680	24,680	Agency Fund	-
Nonmajor Special Revenue	LID Financing	414,592	380,061	Nonmajor Debt Service	344,148
Nonmajor Internal Service	LID Financing	438,905	94,567	Nonmajor Debt Service	64,567
Nonmajor Internal Service	Land purchase	1,400,000	942,543	Nonmajor Special Revenue	475,937
Nonmajor Special Revenue	Parking Lot Repaving	749,000	359,765	Nonmajor Special Revenue	243,370
TOTAL		3,417,957	2,192,396		1,128,022

Interfund transfers

Transfers between funds during the year ended December 31, 2015 are as follows:

TRANSFER FROM					
		General	Nonmajor Special	Internal Service	Total
TRANSFERS TO	General		138,000.00		138,000.00
	Nonmajor Special Revenue	915,703.00	407,345.76		1,323,048.76
	Major Construction	3,494,028.63	2,397,298.40		5,891,327.03
	Internal Service	181,280.00	80,000.00	58,000.00	319,280.00
	Total	4,591,011.63	3,022,644.16	58,000.00	7,671,655.79

Transfers are used to 1) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs; 2) move investment earnings or operating subsidies from one fund to its designated, authorized purpose carried out by another fund; 3) move resources designated for construction to and from construction funds as projects are created and/or completed.

There were one time transfers for the purpose of construction between several special revenue funds, the general fund and the construction funds. There were on-going transfers to move grant support from the Community Development Block Grant fund to the general fund for qualified grant activities; from earnings in the cemetery endowment fund to pay the general fund for maintenance activities; from earnings and fund balance of the Boulevard Maintenance fund to the general fund to pay for boulevard maintenance activities and from the general fund to the ambulance fund.

E. Leases

Operating leases. The city leases its front-line police vehicles. Leases are generally for a three year period. Generally, at the end of the three year period the lease ends and the city returns the vehicles. New vehicles and leases are then acquired. In addition the city has two leases for copiers. The following represents the future minimum lease payments:

Copier Lease		Police vehicles	
December 31	Amount	Year Ending December 31	Amount
2016	\$ 847	2016	\$ 101,454
		2017	150,063
		2018	148,109
		2019	87,575
Total	\$ 847	Total	\$ 487,201

F. Long-term Debt

Changes in long-term liabilities. For the governmental activities, compensated balances are generally liquidated by the General and Streets funds while worker's compensation claims are liquidated by the Medical/Dental internal services fund. The net pension obligation and the net OPEB obligation are both generally liquidated by the General fund.

Long-term liability activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General obligation bonds ¹	\$ 3,315,000	\$ 8,795,000	\$ (530,000)	\$ 11,580,000	\$ 850,000
Plus Unamortized Premiums		307,734	-	307,734	15,387
Total Bonds Payable	\$ 3,315,000	\$ 9,102,734	\$ (530,000)	\$ 11,887,734	\$ 865,387
Special Assessment Bond ¹	160,000	-	-	160,000	-
External loans	129,601	-	(51,229)	78,372	44,418
Compensated absences ²	2,048,258	1,367,127	(1,309,037)	2,106,348	1,309,037
Net OPEB obligation	2,523,460	1,648,633	(841,009)	3,331,084	-
Governmental activity long-term liabilities	\$ 8,176,319	\$ 12,118,494	\$ (2,731,275)	\$ 17,563,538	\$ 2,218,842
	3,604,601.00	(7.00)			
BUSINESS ACTIVITIES					
Revenue bonds	28,030,000	14,380,000	(5,720,000)	36,690,000	1,635,000
Plus Unamortized Premiums	-	1,595,529	-	1,595,529	63,821
Total Bonds Payable	\$ 28,030,000	\$ 15,975,529	\$ (5,720,000)	\$ 38,285,529	\$ 1,698,821
External loans	8,664,110	-	(1,719,487)	6,944,623	1,620,576
Compensated absences ²	312,275	232,787	(333,483)	211,579	105,790
Business activity long-term liabilities	\$ 37,006,385	\$ 16,208,316	\$ (7,772,970)	\$ 45,441,731	\$ 3,425,187
Total Changes in Long-Term Liabilities	\$ 45,182,704	\$ 28,326,810	\$ (10,504,245)	\$ 63,005,269	\$ 5,644,029

Notes:

¹ Reclassified LID Bond payable from General obligation bond as the bond is not backed by the full faith and credit of the government but is only with commitment. Also the beginning balance \$78,313 was reclassified from General obligation bonds as the debt is a loan and not a bond.

² Due to prior period corrections, the beginning balances for compensated absences were restated. The governmental activities was increased by \$538,662 and the Business Activities increased by \$79,661.

Long-term debt. The city issues general obligation bonds to finance capital improvements such as bridges, streets, municipal buildings and enterprise facilities such as water and sewer utilities. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. The City is also liable for notes that were entered into for the purchase of the Animal Control facilities and Port Airport Fire Building. These notes are considered obligations of the general government and are being repaid with general governmental resources. Proprietary fund revenues are used to repay revenue and refunding bonds as well as certain loans. The bond issues are not subject to arbitrage but the investments held in reserves (and the Guarantee Fund for LID 135 and 145) are subject to rebate and yield restrictions.

GENERAL OBLIGATION BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
1999 LTGO Library and Fire Station	2015-2019	5.45% - 5.60%	\$1,700,000	\$100,000
2011 LTGO Refund 2001 LTGO	2015-2020	3.00% - 4.00%	4,110,000	445,000
2015 LTGO Police Station	2015-2045	3.00% - 4.00%	8,795,000	305,000

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	850,000	444,200		
2017	870,000	416,200		
2018	895,000	382,900		
2019	930,000	345,500		
2020	860,000	306,700		
2021-2025	1,955,000	1,211,500		
2026-2030	2,375,000	791,413		
2031-2035	2,845,000	326,426		
TOTAL	\$ 11,580,000	\$ 4,224,839	\$ -	\$ -

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SPECIAL ASSESSMENT BOND

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2010 LID 145 A Street Improvments	2012-2020	2.25% - 5.00%	\$ 785,129	\$ -

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	-	7,800		
2017	-	7,800		
2018	-	7,800		
2019	80,000	7,800		
2020	80,000	4,000		
TOTAL	\$ 160,000	\$ 35,200	\$ -	\$ -

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REVENUE BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2009 Water/Sewer	2015- 2029	3.00%-4.75%	10,045,000	450,000
2010 A Ref 1998B Plus New	2015- 2029	3.00%-4.370%	9,070,000	275,000
2010 T Ref 1998A	2018	4.62%	1,240,000	165,000
2013 A Sewer	2015-2028	3.00%-4.00%	2,520,000	100,000
2013 T Process Water Reuse Facility	2015-2028	0.69%-4.29%	7,235,000	435,000
2015 Water/Sewer	2015-2040	2.00%-5.00%	14,380,000	210,000

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016			\$ 1,635,000	\$ 1,507,209
2017			1,715,000	1,496,141
2018			1,760,000	1,439,631
2019			2,045,000	1,379,961
2020			2,115,000	1,303,369
2021-2025			10,000,000	5,270,625
2026-2030			7,565,000	3,147,403
2031-2035			4,340,000	1,888,750
2036-2040			5,515,000	706,450
TOTAL	\$ -	\$ -	\$ 36,690,000	\$ 18,139,539

EXTERNAL LOANS

PURPOSE	MATURITY	INTEREST RATE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2002 Animal Control Facility Land	12/1/2016	6.24%	275,500	29,678
2006 Port Airport Fire Building	7/12/2016	4.00%	120,000	8,392
LID 146 Special Assessment Note	5/2/2021	4.10%	89,351	6,348
Riverview Trunk/SE Sewer PW-00-691-043	6/30/2020	1.00%	1,890,000	111,140
2000 Sewer Treatment Plant Phase 1&2 SRF Loan	7/31/2020	1.00%	23,700,000	1,509,436
YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	44,418	3,155	1,620,576	216,076
2017	6,608	1,392	1,673,869	161,673
2018	6,879	1,121	1,729,043	105,387
2019	7,161	839	1,786,165	47,154
2020	7,454	546	134,970	1,738
2021-2025	5,852	240		
2026-2030				
TOTAL	\$ 78,372	\$ 7,293	\$ 6,944,623	\$ 532,028

DUE TO OTHER GOVERNMENTS

PURPOSE	MATURITY	INTEREST RATE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
Sewer Treatment Plant Phase 1&2 SRF Loan	7/31/2020	3.50%	25,010,505	1,719,955
YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016			\$ 1,620,576	\$ 216,076
2017			\$ 1,673,869	\$ 161,673
2018			\$ 1,729,043	\$ 105,387
2019			\$ 1,786,165	\$ 47,154
2020			\$ 134,970	\$ 1,738
TOTAL			\$ 6,944,623	\$ 532,028

In 2015 The city issued \$14,380,000 of revenue refunding bonds to provide resources to pay the costs of construction of improvements to the city's water treatment plant; for the installation and improvement of various water lines throughout the water system; to pay for additions to the City's sewage treatment facility and sewer line extensions; to refund certain outstanding water and sewer revenue bonds of the City; fund an increase in the required balance in the reserve account; and to pay the costs of issuance of the bonds. Bond proceeds were deposited with the Refunding Trustee and invested in noncallable direct obligations of the United States of America that will mature and bear interest at rates sufficient, together with cash held by the Refunding Trustee, to pay all future debt service payments on \$4,080,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business activities column of the statement of net position. The present value savings (economic gain) from the refinancing was \$408,382.

NOTE 4 – RISK MANAGEMENT

The City of Pasco maintains insurance against most normal hazards except for unemployment and automobile collision, where it has elected to become self-insured.

For unemployment claims, the City is on a 100% reimbursable program with the State where the City pays all unemployment claims charged against it.

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.3 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 over 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. Effective January 2011 City of Pasco coverage changed to a \$100,000 per incident deductible from a no deductible policy. Coverage includes general, automobile, police professional, public officials' errors and omissions, stop gap, and employee benefits liability. WCIA limits are \$4 million per occurrence in the self-insured layer, and \$16 million per occurrence in the re-insured layer. The excess layer is insured by the purchase of reinsurance and is subject to aggregate sub-limits in the excess layers. 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 bonds, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the member's deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance. (City does not participate in these programs; all is purchased through commercial broker as identified on this page).

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.

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.

Property, Inland Marina, boiler, machinery and employee fidelity insurance is purchased through commercial insurance brokers.

The City is self-insured for medical and dental coverage for its employees. A third party administrator, Benefits Management, Inc. processes all claims for reimbursement. The third party administrator provides utilization management services and requires pre-authorization for all non-emergency hospital confinements. It is the City's policy to maintain at least three months of average monthly claims in cash reserves. To limit the exposure for large claims, the City purchases individual stop-loss coverage from a commercial insurance carrier that limits the City's exposure for claim losses to \$80,000 per individual. The amount of medical/dental claims in excess of commercial insurance for the last three years are:

2013	2014	2015
\$4,575,365	\$4,396,624	\$4,627,663

NOTE 5: JOINT AGREEMENT/JOINT VENTURES

Bi-County Police Information Network

The Bi-County Police Information Network (BI-PIN) was established November 24, 1982, when an Interlocal Agreement was entered into by five participating municipal corporations, the cities of Kennewick, Pasco, and Richland, and Benton and Franklin Counties. BI-PIN was established to assist the participating police and sheriff's departments in the deterrence and solution of criminal incidents. BI-PIN is served by an Executive Committee composed of the City Manager of each of the cities and a member from each of the Boards of County Commissioners of Benton and Franklin Counties. A liaison from the Bi-County Chiefs and Sheriffs is an ex officio, non-voting member.

The allocation of financial participation among the participating jurisdictions is based upon the approved budget for that year and is billed quarterly in advance to each agency. On dissolution of the Interlocal Agreement, the net position will be shared based upon participant contributions.

Effective January 1, 1992, the City of Kennewick assumed responsibility for the operation of the BI-PIN system. As the Operating Jurisdiction, the City of Kennewick provides all necessary support services for the operation of BI-PIN such as accounting, legal services, risk management and information systems. The equity reduced by BI-PIN in 2015 for these transactions was \$8,713.

The City of Pasco's equity interest in BI-PIN was \$44,236 on December 31, 2015, which is reported as investment in joint ventures in the government-wide statement of net position. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distribution from BI-PIN since charges are assessed only to recover anticipated expenses.

Complete separate financial statements for BI-PIN may be obtained at the City of Kennewick, 210 West Sixth Avenue, Kennewick, Washington 99336.

Metropolitan Controlled Substance Enforcement Group

The Metropolitan Controlled Substance Enforcement Group (Metro) was established prior to 1987, when six participating municipal corporations entered into an Interlocal Agreement. These entities include the cities of Kennewick, Pasco, Richland, and West Richland, and Benton and Franklin Counties. Metro was established to account for the proceeds of forfeitures, federal grants, and court ordered contributions, and to facilitate the disbursement of those proceeds for the purpose of drug enforcement and investigations. Metro is served by an Executive Committee composed of the City Manager, or designee, of each of the cities and a member from each of the Boards of County Commissioners of Benton and Franklin Counties. In addition, a Governing Board, consisting of the Police Chiefs from each of the cities and the Sheriffs and Prosecuting Attorneys from the two counties, administers daily activity.

Effective July 1, 2009, the City of Kennewick assumed responsibility for the operation of Metro. As the Operating Jurisdiction, the City provides all necessary support services for the operation of Metro such as accounting, legal services and risk management.

The City of Pasco's equity interest in Metro was \$3,723 as of June 30, 2015, which is reported as an investment in joint ventures in the government-wide Statement of Net position. The 2015 reduction in equity was \$3,125. The change in equity is reflected in the government-wide statement of activities under Public Safety. The City does not anticipate any income distribution from Metro since charges are assessed only to recover anticipated expenses.

Complete separate financial statements for Metro may be obtained from the City of Kennewick, 210 West Sixth Avenue, Kennewick, Washington 99336.

Tri-City Animal Control Authority

In 2005 the city entered into an interlocal agreement with the cities of Kennewick and Richland to jointly fund the operations of the Animal Control Authority (ACA). The ACA was established to provide animal control and sheltering services. ACA is served by an Executive Committee composed of the City Manager, or designee, of each of the cities.

In 2005, the City of Pasco was designated as the Operation Jurisdiction for the ACA. As the Operating Jurisdiction, the City provides all necessary support services for the operation such as accounting, contract administration and risk management.

Complete separate financial statements for ACA may be obtained from the City of Pasco, P.O. Box 293, Pasco, Washington 99301.

NOTE 6: RELATED PARTIES/ORGANIZATIONS

Pasco Public Facility District

Pursuant to RCW 35.57 (the “City PFD Act”) the Pasco Public Facilities District was formed and created by Ordinance No. 3558 on July 15, 2002, coextensive with the boundaries of the City, with the powers and authority set forth in the City PFD Act. The District was established for the purpose of acquiring, constructing, owning, remodeling, maintaining, equipping, re-equipping, repairing, financing, operating one or more Regional Centers, as defined by the RCW 35.57.020 and/or participating with any other qualified public facilities district in a cooperative and joint development of a Regional Center in the Tri-Cities area by interlocal agreement.

The members of the board of directors of the District (the “PFD Board”) shall be selected and appointed by the Council, as required by the RCW. The PFD Board consisted of five members. Three of the members will be appointed based on recommendations from local organizations. The members serve four-year terms. The Council may, by resolution, remove a member for any reason. Vacancies will be filled by appointment by the Council.

All corporate powers of the District will be exercised by or under the authority of the PFD Board; and the business, property and affairs of the District shall be managed under the direction of the PFD Board, except as may be otherwise provided for by law or in its Charter.

Complete separate financial statements for the District may be obtained from the City of Pasco, P.O. Box 293, Pasco, WA 99301.

Downtown Pasco Development Authority

Pursuant to RCW 35.21, the Downtown Pasco Development Authority was formed and created by Ordinance No. 3985 (the DPDA Act) on December 20, 2010, coextensive with the boundaries of the City, with the powers and authority set forth in the City DPDA Act. The Authority was created to administer and execute Federal grants or programs; to receive and administer private funds; goods or services for any lawful public service; and to perform any lawful public purpose or public function to provide for the revitalization and enhancement of the downtown Pasco area.

The members of the board of directors of the Authority (the “DPDA Board”) are selected and appointed by the Mayor of the City of Pasco, subject to confirmation by the City Council. The DPDA Board consists of nine members. Five of the members are representative of for-profit business or property owners within the downtown area. At least two members are representative of the banking and/or real estate profession, and at least two members are representatives of business or corporate management. The members serve four-year terms. The Council may, by

resolution, remove a member for any reason. Vacancies will be filled by appointment by the Mayor, subject to confirmation by the City Council.

All corporate powers of the Authority will be exercised by or under the authority of the DPDA Board; and the business, property and affairs of the Authority shall be managed under the direction of the DPDA Board, except as may be otherwise provided by law or in its Charter.

In 2015, the City expended \$151,200 in subsidies and pass-through grants to the DPDA. As part of its charter, the DPDA was granted the right to receive the revenues generated by the Farmers' Market and the Specialty Kitchen program. The activity from those two programs are not reflected in the amount noted above.

Financial statements for the Authority may be obtained from the Downtown Pasco Development Authority at 720 W. Lewis Street, Suite 131, Pasco, WA 99301.

Trade, Recreation, Agricultural Center

In 1994 the City entered into an agreement with Franklin County for the Trade, Recreation, and Agricultural Center (TRAC). The City and Franklin County share in the costs of operating and covering TRAC's debt service. Franklin County handles all operating decisions and financial reporting for TRAC.

The City accounts for its portion of TRAC activity in the TRAC Special Revenue Fund. For calendar year 2015, the City of Pasco paid Franklin County \$256,366 for operating expenditures. Additionally, in 2014 the City provided \$100,000 to the County to assist with TRAC's cash flows. This will be returned to the City in 2026, when the existing agreement lapses. It is classified on the balance sheet as a non-current asset: Due from Other Government. As of December 31, 2015, the TRAC Fund had a fund balance of \$207,204.

Complete financial statements for TRAC may be obtained from Franklin County, 1016 N. 4th Avenue, Pasco, Washington.

Housing Authority of the City of Pasco and Franklin County

The Housing Authority of the City of Pasco and Franklin County was formed and created by Ordinance No. 2299 on September 8, 1981, in order to pursue the rehabilitation and redevelopment of blighted areas containing unsanitary or unsafe habitations located within the City of Pasco and Franklin County. Its formation empowered the joint housing authority to exercise all rights referred to under RCW 35.82 "Housing Authority Law."

Three of the five Authority board members are appointed by the City Council.

During 2015, the Authority received \$18,057 in pass-through grants administered by the City. All other payments received from the City related to lease payments. In 2015, the City and the Authority entered into an agreement which will result in Payment in Lieu of Taxes (PILOT) to the City starting in 2015 in order to defray the cost of the City providing essential local public services.

Financial statements for the Authority may be obtained from the Housing Authority of the City of Pasco and Franklin County, 2505 W. Lewis Street, Pasco, WA 99301.

NOTE 7: JOINTLY GOVERNED ORGANIZATIONS:**Tri-Cities Regional Public Facilities District**

Pursuant to RCW 35.57 the Tri-Cities Regional Public Facilities District (District) was formed jointly by the Cities of Pasco, Kennewick, and Richland. The District was established for the purpose of acquiring, constructing, owning, remodeling, maintaining, equipping, re-equipping, repairing, financing, operating one or more Regional Centers, as defined by the RCW 35.57.020 and/or participating with any other qualified public facilities districts in a cooperative and joint development of a Regional Center in the Tri-Cities area, by interlocal agreement.

The District is governed by a nine-member board, with three members representing each city. Each member must either be a member of the City Council or the Public Facilities District of the representative city.

Franklin County Emergency Management

Franklin County Emergency Management (FCEM) is a political subdivision of Franklin County and its municipalities. The FCEM is responsible for coordinating and establishing emergency response plans to prepare Franklin County for emergencies involving the following: Energy Northwest; the Hanford Nuclear Reservation; the Pasco Airport; and all Homeland Security, natural and man-made disasters

FCEM is governed by a seven member board, with two County Commissioners, one City Manager or designee from each of the following cities: Connell, Kahlotus, and Mesa. The City of Pasco has two representatives on the board due to its population base.

Benton-Franklin Council of Governments

The Benton-Franklin Council of Governments (BFCG) is a voluntary association of the units of local government, whose purpose is to facilitate a cooperative approach to regional problem solving.

Seventeen regular voting members represent the two counties, local governments, including a Public Utility District, a Transportation District, a Port and the Washington State Department of Transportation. The City of Pasco has one City Council member as its voting representative on the Board. In addition to regular voting members, there are one associate member and two affiliate members.

Benton-Franklin Council of Governments Economic Development District

The Benton-Franklin Council of Governments Economic Development District (EDD) is a voluntary association of the units of local government and private sector members whose purpose is to facilitate a cooperative approach to regional economic development.

The board is comprised of the members of the Benton-Franklin Council of Governments plus nine representatives from the private sector.

8. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The City implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions* in January 2015. The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$9,852,571
Pension assets	\$4,984,645
Deferred outflows of resources	\$3,233,984
Deferred inflows of resources	\$2,895,364
Pension expense/expenditures	\$ 754,009

State Sponsored Pension Plans

Substantially all the city's 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The city's actual contributions to the plan were \$15,958 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor

and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The city's actual contributions to the plan were \$1,120,250 for the year ended December 31, 2015.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The city's actual contributions to the plan were \$616,823 for the year ended December 31, 2015.

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 the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$6,516,488	\$5,352,340	\$4,351,279
PERS 2/3	\$13,158,905	\$4,500,230	\$(2,129,393)
LEOFF 1	\$(520,362)	\$(813,380)	\$(1,063,122)
LEOFF 2	\$4,177,251	\$(4,171,265)	\$(10,453,839)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the city reported a total pension liability of \$9,852,571 and a net pension (asset) of \$(4,984,645) for its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	\$ 5,352,340
PERS 2/3	\$ 4,500,230
LEOFF 1	\$ (813,380)
LEOFF 2	\$(4,171,265)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the city were as follows:

	Liability (or Asset)
LEOFF 2 – employer’s proportionate share	\$(594,850)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	\$(393,315)
TOTAL	\$(988,165)

At June 30, the city’s proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.097647%	0.102321%	0.004674%
PERS 2/3	0.114462%	0.125949%	0.011487%
LEOFF 1	0.067804%	0.067488%	0.000316%
LEOFF 2	0.365709%	0.405844%	0.040135%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$130,270
PERS 2/3	\$911,466
LEOFF 1	\$(158,437)
LEOFF 2	\$(129,290)
TOTAL	\$754,009

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$292,831
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$7,839	\$0
TOTAL	\$7,839	\$292,831

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$478,376	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$1,201,348
Changes of assumptions	\$7,251	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$478,321	\$0
Contributions subsequent to the measurement date	\$1,465,690	\$0
TOTAL	\$2,429,638	\$1,201,348

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$137,314
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
TOTAL	\$0	\$137,314

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$365,254	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$1,263,871
Changes of assumptions	\$11,002	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$250,804
Contributions subsequent to the measurement date	\$318,598	\$0
TOTAL	\$694,854	\$1,514,675

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Effect on Future Pension Expense					
Year Ended 12/31:	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>LEOFF 1</u>	<u>LEOFF 2</u>	<u>Total</u>
2016	(113,491)	(217,464)	(53,283)	(381,261)	(765,499)
2017	(113,491)	(217,464)	(53,283)	(381,261)	(765,499)
2018	(113,491)	(217,464)	(53,283)	(381,261)	(765,499)
2019	47,643	306,279	22,535	112,809	489,266
2020	-	-	-	112,814	112,814
Thereafter	-	-	-	22,564	22,564

Firemen's Pension**Plan Description**

Plan Administration: The Firefighters' Pension Fund is administered by the City of Pasco. The plan is a single-employer defined benefit pension plan that provides pensions for firefighters that were hired prior to 1970.

The municipal firefighters' pension board consists of the following five members, ex officio, the mayor, or in a city of the first class, the mayor or a designated representative who shall be an elected official of the city, who shall be chairperson of the board, the city comptroller or clerk, the chairperson of finance of the city council, or if there is no chairperson of finance, the city treasurer, and in addition, two regularly employed or retired firefighters elected by secret ballot of those employed and retired firefighters who are subject to the jurisdiction of the board. The members to be elected by the firefighters shall be elected annually for a two year term. The two firefighters elected as members shall, in turn, select a third eligible member who shall serve as an alternate in the event of an absence of one of the regularly elected members. In case a vacancy occurs in the membership of the firefighters or retired members, the members shall in the same manner elect a successor to serve the unexpired term. The board may select and appoint a secretary who may, but need not be a member of the board. In case of absence or inability of the chairperson to act, the board may select a chairperson pro tempore who shall during such absence or inability to perform the duties and exercise the powers of the chairperson. A majority of the members of the board shall constitute a quorum and have power to transact business.

Plan Membership: Plan membership is limited to active members of the Firefighters' Pension Fund (FPF) as of March 1, 1970. On that date, the Washington Law Enforcement Officers' and Firefighters' System (LEOFF) was established. FPF is responsible for paying the pensions of those members retired prior to March 1, 1970 and for providing the "excess benefit", the excess of FPF formula benefits over the LEOFF benefits. Therefore, the plan is closed to new members. At December 31, 2015, FPF membership consisted of the following:

Inactive plan members retired prior to March 1, 1970: 0

Inactive plan members retired March 1, 1970 or after: 11

Active Plan Members: 0

Benefits provided. All benefit terms are in statutes RCW 41.16, 41.18, and 41.26. FPF provides retirement, disability, and death benefits. Each firefighter in service on March 1, 1970 receives the greater of the benefit payable under the Washington Law Enforcement Officers' and Firefighters' Retirement System and the benefits available under the provisions of prior law. Where benefits under the old law exceed those under the new law for any firefighter, the excess benefits are paid from the FPF of the city employing the member on March 1, 1970.

All members are retired and drawing benefits. Benefit terms provide for cost-of-living adjustments to each member's retirement benefit. There are two types of increases: escalation by salary in proportion to the current salary of the rank from which the firefighter retired, or an increase proportionate to the increase in the Seattle-area CPI, with the change computed

annually. Regardless of the increase (or decrease) in the CPI, the benefits are increased at least 2% each year. The former applies to firefighters who retired from service after 1969, their survivors, and to firefighters who retired for duty disability (but not their survivors) after 1969. The latter applies to all other types of monthly benefits.

Contributions. As long as the FPF provides for benefits to covered members, the City will be eligible to receive a share of the State's distribution of the fire insurance premium taxes. The amount the City receives is 25% of all monies received by the State from taxes on fire insurance premiums. Contributions can also come from taxes paid pursuant to the provisions of RCW 41.16.060. This statute requires that each municipality levy up to \$0.45 (only \$0.225 of which can be in excess of the property tax limit pursuant to RCW 84.52.043) per \$1,000 of assessed valuation, based on reports by a qualified actuary, to maintain the fund.

Investments

The City of Pasco does not have an investment policy for pension fund assets.

Rate of Return. For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -0.86%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

FPF Net Pension Liability

The components of the City's net pension liability at December 31, 2015 are as follows:

Total pension liability	\$ 1,185,733
Less: Plan fiduciary net position	(2,240,970)
FPF net pension liability/(asset)	<u>\$(1,055,237)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>188.99%</u>

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.10%

Healthy life mortality rates were based on the RP-2014 mortality table, total dataset, fully generational projected with Scale MP-2014, set back one year for males and set forward one year for females. Disabled life mortality rates were based on the RP-2014 mortality table, total dataset, fully generational projected with Scale MP-2014, set back two years for males and females.

The long-term expected rate of return on pension plan investments assumption was based on the nature and mix of current and expected pension plan assets over a period of time representative of the expected length of time between the first day of service and date of the last benefit payment.

Discount rate. The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed City contributions were equal to the statutorily calculated contribution of state fire insurance premiums for the next 20 years. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability of the City, calculated using the discount rate of 7.10%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower, 6.10%, or one-percentage point higher, 8.10%, than the current rate, follows:

FPF net pension liability:	Current		
	1% Decrease	Discount Rate	1% Increase
	\$ 1,311,795	\$ 1,185,733	\$ 1,078,484

This plan has not been audited. A copy of the plan can be obtained by request at the following address: City of Pasco 525 N 3rd Ave., Pasco, WA 99301.

The Firemen's pension plan financial statements follow:

Statement of Net Position Firemen's Pension Trust Fund December 31, 2015		Statement of Changes in Net Position Firemen's Pension Trust Fund December 31, 2015	
ASSETS		ADDITIONS	
Cash	\$ 145,233	Taxes	\$ 54,506
Investments		Investments earnings	
LID note	40,301	Interest	5,072
Federal agency	53,571	Dividends	173,851
Mutual funds	2,001,865	Net change in fair value of investments	(198,612)
Total assets	<u>2,240,970</u>	Total additions	<u>34,817</u>
LIABILITIES		DEDUCTIONS	
Due to Others	<u>1,185,733</u>	Pension benefits	82,477
Total liabilities	<u>1,185,733</u>	Administrative expenses	<u>3,398</u>
		Total deductions	<u>85,875</u>
NET POSITION		Change in net assets	(51,058)
		Change in net assets	
		Net position - beginning	<u>1,106,295</u>
Held in trust for pension benefits	<u>\$ 1,055,237</u>	Net position - ending	<u>\$ 1,055,237</u>

The schedule of changes in net pension liability and related ratios, schedule of employer contributions and schedule of investment returns are found immediately following the notes to the financial statements and present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing relative to the actuarial accrued liability for benefits over time. The pension plan has remained fully funded over the last five years and no additional contributions were made.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS

LEOFF 1 – Postemployment Healthcare Plan

In addition to the pension benefits outlined in Note 8, *Employee Retirement Systems and Pension Plans*, the City of Pasco provides post-retirement health care benefits via a single employer defined benefit plan in accordance with state statute for retired police officers and firefighters who are eligible under the Law Enforcement Officers' and Firefighters' (LEOFF1) plan retirement system.

Effective December 31, 2010, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45), which requires the City to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the City, under GASB No. 45, has recorded a liability of approximately \$3,331,084 for the

difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. This liability is included in other noncurrent liabilities in the accompanying December 31, 2015 statement of net position. The effect of GASB No. 45 for the current fiscal year was to decrease the City's excess of revenue over expenses for the year ended December 31, 2015 by approximately \$807,624.

Plan Description: As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977, under a defined-benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, or other pension plan, or any other similar source, are covered.

Funding Policy: Pursuant to state statute, the City reimburses 100% of authorized LEOFF 1 retiree healthcare costs. The City pays a monthly insurance premium to cover each retiree under its medical insurance program as well as any remaining eligible out-of-pocket expenses. Retirees are not required to contribute to the plan.

For the fiscal year ended December 31, 2015, the City contributed \$638,987 to the Health Plan. The City's contribution was entirely to fund 'pay-as-you-go' costs under the Health Plan and not to prefund benefits. There were no retiree contributions.

Annual OPEB Cost and Net OPEB Obligation: The basis for the City's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities. The following displays the components of the City's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the City's net OPEB obligation to the Health Plan for the year ended December 31, 2015:

Normal cost - Entry Age Normal Method	\$ 31,718
Amortization of unfunded actuarial accrued liability (UAAL)	<u>1,547,520</u>
ARC	1,579,238
Interest on net OPEB obligation	69,395
Adjustment to annual required contribution	<u>(202,022)</u>
Annual OPEB cost (expense)	1,446,611
Contributions made	<u>(638,987)</u>
Increase in net OPEB obligation	807,624
Net OPEB obligation - beginning of year	<u>2,523,460</u>
Net OPEB obligation - end of year	<u><u>\$ 3,331,084</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 800,733	\$ 514,297	64.23%	\$1,981,585
12/31/2014	\$ 1,191,159	\$ 649,284	54.51%	\$2,523,460
12/31/2015	\$ 1,446,611	\$ 638,987	44.17%	\$3,331,084

Funded Status and Funding Progress: The funded status of the Health Plan as of December 31, 2015,

Actuarial accrued liability (AAL) - Entry Age Normal	\$19,361,802
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$19,361,802</u>
Funded ratio (actuarial value of plan assets ÷ AAL)	0.00%
Covered payroll	\$ 218,161
UAAL as a percentage of covered payroll	8875%

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

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

The January 1, 2015 valuation used the entry age normal actuarial cost method. The actuarial assumptions included a 2.75% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 8.5% for pre-Medicare expenses, to an ultimate rate of 3.84% after 61 years. The Medicare trend assumption is 5.5%, to an ultimate rate of 3.84% after 61 years. The trend for the Excise Tax threshold is 0% until 2020, when a trend rate of 4.24% is used. The trend for all future years after that year is 3.24%. All trend rates include a 3.0% inflation assumption. The UAAL is amortized as a level dollar amount on an open basis over 15 years.

The City of Pasco has a total of thirty-three LEOFF 1 members in this plan. Thirty-one of those members are retired and two are still active employees.

Fire Pension – Postemployment Healthcare Plan

Effective December 31, 2010, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45), which requires the City to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. The City, under GASB No. 45, has recorded a liability of approximately \$0 for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45.

Plan Description: As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a single employer, defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, or other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by the City's employee medical insurance program. Under authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Members of the Fire Pension plan purchase medical insurance through the City's medical insurance program.

Funding Policy: Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by the RCW. The City's funding policy is based upon pay-as-you-go financing requirements for any requirements in excess of amounts previously set aside in the Fire Pension OPEB trust fund.

For the fiscal year ended December 31, 2015, the City contributed \$0 to the Health Plan. There were no retiree contributions.

Annual OPEB Cost and Net OPEB Obligation: The basis for the City's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed ten years. The following displays the components of the City's

annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the City's net OPEB obligation to the Health Plan for the year ended December 31, 2015:

Normal cost - Entry Age Normal Method	\$ -
Amortization of unfunded actuarial accrued liability (UAAL)	-
ARC	-
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	-
Contributions made	-
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

Funded Status and Funding Progress: The funded status of the Health Plan as of December 31, 2015,

Actuarial accrued liability (AAL) - Entry Age Normal	\$ 1,420,555
Actuarial value of plan assets	2,538,093
Unfunded actuarial accrued liability (UAAL)	<u>\$(1,117,538)</u>
Funded ratio (actuarial value of plan assets ÷ AAL)	178.70%
Covered payroll	n/a
UAAL as a percentage of covered payroll	n/a

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

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

The January 1, 2015 valuation used the entry age normal actuarial cost method. The actuarial assumptions included a 7.80% investment rate of return (net of administrative expenses) The Medicare trend assumption is 5.5%, to an ultimate rate of 3.8% after 61 years. The trend for the Excise Tax threshold is 0% until 2020, when a trend rate of 0.00% is used. The trend for all future years after that year is 3.24%. All trend rates include a 3.0% inflation assumption.

Following are the financial statements for the Firemen's Other Post Employment Benefit Trust Fund:

Statement of Net Position Firemen's Other Post-Employment Benefits Trust Fund December 31, 2015		Statement of Changes in Net Position Firemen's Other Post Employment Benefit Trust Plan For the Year Ended December 31, 2015	
ASSETS		ADDITIONS	
Cash	\$ 14	Taxes	\$ -
		Investments earnings	
		Interest	21
Investments		Dividends	152,269
Mutual funds	2,562,759	Net change in fair value of investments	(156,544)
Total assets	<u>2,562,773</u>	Total additions	<u>(4,254)</u>
LIABILITIES		DEDUCTIONS	
Due to Others	24,680	Pension benefits	105,048
Total liabilities	<u>24,680</u>	Administrative expenses	2,974
		Total deductions	<u>108,022</u>
		Change in net assets	(112,276)
NET POSITION		Net position - beginning	2,650,369
Held in trust for OPEB benefits	<u>\$ 2,538,093</u>	Net position - ending	<u>\$ 2,538,093</u>

NOTE 10: CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including applicable estimates for situations that are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and self-insurance reserves are adequate to pay all material known or pending claims. As discussed in Note 3. F, *Long-term Debt*, the City is contingently liable for repayment of debt.

The City participates in a number of Federal and State assisted programs. These grants are subject to audit by the grantor or representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. However, City management believes that such disallowances, if any, will be immaterial.

Currently, there is an underground fire in a non-municipal Pasco landfill which closed in 1998. The Washington State Department of Ecology (DOE) is proposing to issue an enforcement order to parties collectively known as Potentially Liable Persons (PLPs). The City entered into an "Institutional Control" agreement with the DOE to regulate development and provide for the conversion of private water wells located down-plume from the site to be abandoned in favor of

using the City's municipal water system. It is the City's understanding that, because of its entering into this agreement, the DOE is excluding the City from being designated as a PLP.

NOTE 11: PRIOR PERIOD CORRECTIONS AND CHANGES IN ACCOUNTING

The City of Pasco adopted GASB 68 in 2015 which mandated changes in pension accounting and financial statement presentation. 2015 beginning balances were restated to include the addition of net pension assets, liabilities and related pension deferred inflows and outflows and their related effects on Net Position. These changes occurred in the government wide Statement of Net Position as well as the fund level Statements of Net Position for the utility fund and some of the internal service funds. Additionally, there were changes to correct the beginning balances of compensated absences (added \$538,662 relating to Governmental Type Activities and \$79,661 relating to Business Type Activities). The net changes in beginning Net Position relating to the effects of corrections and changes are as follows:

Governmental Activities Net Position	\$ (4,893,725)
Business Activities Net Position	\$ (1,756,353)
Water/Sewer Utility Net Position	\$ (1,756,353)
Firemen's Pension Trust Fund	\$ (1,220,026)

Additionally the Special Lodging fund beginning net position was restated to add \$16,650 for correction of prior year error.

NOTE 12: SUBSEQUENT EVENT

In February 2016 the City issued a \$3,960 LTGO bond to refinance the existing water/sewer SRF loan.

NOTE 13: LEGAL COMPLIANCE

The Street Fund, a nonmajor special revenue fund received less revenue than budgeted and ended the year with a negative fund balance of \$(20,362).

There were three nonmajor special revenues funds which exceeded their final budget appropriation by the amounts as follows:

Special Lodging Assess Fund \$8,120
Revolving Abatement Fund \$8,846
TRAC Development & Operating Fund \$6,366

Required Supplementary Information
Firemen's OPEB Fund

The following is a schedule of contributions from the employer and other contributing entities for the Firemen's Pension Fund:

Fiscal Year Ending	Actual Fire Insurance Premiums	Actual Employer Contributions	Total Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2015	-	-	-	-	N/A%
12/31/2014	-	-	-	-	N/A%
12/31/2013	-	-	-	-	N/A%

Schedule of Funding Progress for the Firemen's OPEB Fund (rounded to thousands)

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2015	2,538	1,421	(1,117)	179%	N/A	N/A %
December 31, 2014	2,650	1,988	(662)	133%	N/A	N/A %
December 31, 2013	2,517	1,806	(711)	139%	N/A	N/A %

Required Supplementary Information
Other LEOFF 1 OPEB

The following is a schedule of contributions from the employer and other contributing entities for the Other LEOFF 1 :

Fiscal Year Ending	Actual Fire Insurance Premiums	Actual Employer Contributions	Total Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2015	-	638,987	638,987	1,579,238	40%
12/31/2014	-	649,284	649,284	1,290,122	50%
12/31/2013	-	514,297	514,297	934,928	55%

Schedule of Funding Progress for the Other LEOFF 1 OPEB Fund (rounded to thousands)

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2015		\$ 19,362	\$ 19,362	0%	218	8882%
December 31, 2014	-	14,081	14,081	0%	N/A	N/A %
December 31, 2013	-	9,737	9,737	0%	N/A	N/A %

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last 2 Fiscal Years*

PERS 1 PLAN	2014	2015
Employer's proportion of the net pension liability	0.097647%	0.102321%
Employer's proportionate share of the net pension liability	\$ 4,919,014	\$ 5,352,340
Employer's covered employee payroll	\$ 342,721	\$ 163,430
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	1435.28%	3275.00%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last 2 Fiscal Years*

PERS 2&3 PLAN	2014	2015
Employer's proportion of the net pension liability	0.114462%	0.125949%
Employer's proportionate share of the net pension liability	\$ 2,313,690	\$ 4,500,230
Employer's covered employee payroll	\$ 10,474,619	\$ 11,212,390
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	22.09%	40.14%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%

Schedule of Proportionate Share of the Net Pension Asset
As of June 30, 2015
Last 2 Fiscal Years*

LEOFF 1 PLAN	2014	2015
Employer's proportion of the net pension asset	0.067804%	0.067488%
Employer's proportionate share of the net pension liability/ (asset)	\$ (822,321)	\$ (813,380)
Employer's covered employee payroll	\$ 219,984	\$ 207,267
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	126.91%	127.36%

Notes to Schedule:

This is a closed plan and is fully funded. Therefore there is no employer covered payroll, no employer or employee contributions required.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last 2 Fiscal Years*

LEOFF 2 PLAN	2014	2015
Employer's proportion of the net pension asset	0.365709%	0.405844%
Employer's proportionate share of the net pension liability/ (asset)	\$ (4,853,116)	\$ (4,171,265)
State's proportionate share of the net pension (asset) associated with the employer	\$ (3,193,777)	\$ (2,758,046)
TOTAL	\$ (8,046,893)	\$ (6,929,311)
Employer's covered employee payroll	\$ 10,497,629	\$ 12,154,638
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	-76.65%	-57.01%
Plan fiduciary net position as a percentage of the total pension asset	116.75%	111.67%

Schedule of Employer Contributions
As of December 31, 2015
Last 2 Fiscal Years

PERS 1 PLAN	2014	2015
Statutorily or contractually required contributions	\$ 31,484	\$ 16,252
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (31,484)</u>	<u>\$ (16,252)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered employer payroll	\$ 342,721	\$ 163,430
Contributions as a percentage of covered employee payroll	9.19%	9.94%

Schedule of Employer Contributions
As of December 31, 2015
Last 2 Fiscal Years

PERS 2 PLAN	2014	2015
Statutorily or contractually required contributions	\$ 172,109	\$ 244,701
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (172,109)</u>	<u>\$ (244,701)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered employer payroll	\$ 10,474,619	\$ 11,212,390
Contributions as a percentage of covered employee payroll	1.64%	2.18%

Schedule of Employer Contributions
As of December 31, 2015
Last 2 Fiscal Years

LEOFF 1 PLAN	2014	2015
Statutorily or contractually required contributions	\$ -	\$ -
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ -</u>	<u>\$ -</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered employer payroll	\$ -	\$ -
Contributions as a percentage of covered employee payroll	N/A	N/A

Notes to Schedule:

This is a closed plan and is fully funded. Therefore there is no employer covered payroll, no employer or employee contributions required.

Schedule of Employer Contributions
As of December 31, 2015
Last 2 Fiscal Years

LEOFF 2 PLAN	2014	2015
Statutorily or contractually required contributions	\$ 549,396	\$ 635,688
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (549,396)</u>	<u>\$ (635,688)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered employer payroll	\$ 10,497,629	\$ 12,154,638
Contributions as a percentage of covered employee payroll	5.23%	5.23%

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SCHEDULE 16- SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2015

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	From Pass- Through Awards	From Direct Awards	Total	Note:
US Department of Housing & Urban Development						
Community Development Block Grant/Entitlement Grant	14.218	B-13-MC-53-009- CDBG		111,705	111,705	3,7
Community Development Block Grant/Entitlement Grant	14.218	B-14-MC-53-009- CDBG		481,550	481,550	3,7
Community Development Block Grant/Entitlement Grant	14.218	B-15-MC-53-009- CDBG		459,180	459,180	3,7
Community Development Block Grant/Entitlement Grant cluster			-	1,052,435	1,052,435	
Pass-Through Department of Commerce						
Neighborhood Stabilization Plan	14.228	08-F6401-014	190,506		190,506	3,7
Pass-Through City of Richland						
Home Investment Partnerships Program	14.239	Home Program	256,085		256,085	3,5,7
Total US Department of Housing & Urban Development			446,591	1,052,435	1,499,026	
US Department of Justice						
Pass-Through Washington Department of Commerce						
Violence Against Women Formula Grant	16.588	2014-WF-AX-0053	34,698		34,698	2,7
Pass-Through Washington Department of Commerce						
Bulletproof Vest Partnership Program	16.607	2015		8,697	8,697	2,7
Pass-Through from METRO Drug Task Force						
Edward Byrne Memorial Justice Assistance	16.738	M14-31440-009	53,606		53,606	2,7
Edward Byrne Memorial Justice Assistance	16.738	F15-31440-008	40,554		40,554	2,7
Total JAG Program Cluster	16.738		94,160	-	94,160	
Pass-Through from US Marshalls						
Equitable Sharing Program	16.922	Equitable Sharing	3,746		3,746	6,7
Total US Dept of Justice			132,604	8,697	141,301	
US Department of Transportation/ Federal Highway Administration						
Pass-Through Washington Department of Transportation						
Highway Planning and Construction	20.205	STPUL-3515 (007) LA-8059	3,871		3,871	2,7
Highway Planning and Construction	20.205	STPUS-0397 (008) LA-7866	100,503		100,503	2,7
Highway Planning and Construction	20.205	STPUS-0397 (008) LA-7866	2,197		2,197	2,7
Highway Planning and Construction	20.205	STPUS-0397 (008) LA-7866	767		767	2,7
Highway Planning and Construction	20.205	Total Oregon Avenue	103,467		103,467	2,7
Highway Planning and Construction	20.205	STPUL-3515(008)	19,701		19,701	2,7
Highway Planning and Construction	20.205	HSIP-3551 (004) - LA 8697	91,848		91,848	2,7
Highway Planning and Construction	20.205	STPUS-9911 (007) LA-7782	33,630		33,630	2,4,7
Highway Planning and Construction	20.205	STPUL-3515 (006) LA-8060	4,460		4,460	2,7
Highway Planning and Construction	20.205	STPUL-9911(010)	24,571		24,571	2,7
Highway Planning and Construction	20.205	STPUL-9911 (009)	19,046		19,046	2,7
Highway Planning and Construction	20.205	STPUL-1823(062) LA 8318	119,624		119,624	2,7
Highway Planning and Construction	20.205	STPUL-3522 (001) LA-8117	11,269		11,269	2,7
Dual Right Turn SB Rd 68-Study	20.205	STPUS-HLP-3530 (006) LA-7055	37,441		37,441	2,7
Total US Dept. of Transportation FHA			468,928	-	468,928	
US Department of Transportation -National Highway Traffic Safety Administration (NHTSA)						
Pass-Through Washington Association of Sherriff & Police Commission						
State and Community Highway Safety	20.600	14ST-02	18,907		18,907	2,7
Pass-Through Washington Traffic Safety Commission						
State and Community Highway Safety	20.600	14-15 Impaired Driving	655		655	
State and Community Highway Safety	20.600	14-15 Distracted Driving (WTSC)	178		178	
State and Community Highway Safety	20.600	14-15 HVE	833		833	2,7
State and Community Highway Safety	20.600	WTSC- FLEX FUNDING GRANT	247		247	2,7
State and Community Highway Safety	20.600	15-16 Impaired Driving	835		835	2,7
Total US Dept of Transportation NHTSA			20,822	-	20,822	
US Department of Health & Human Services						
Pass-Through Yakima County, Office of Aging & Long Term Care						
Special Programs for the Aging_ Title III, Part B	93.044	ALTC 15	\$ 15,817		\$ 15,817	2,7
Total US Dept of Health & Human Services			15,817	-	15,817	
US Department of Homeland Security						
Pass-Through Franklin County Emergency Management						
Homeland Security Grant Program	97.067	E14-155	15,578		15,578	2,7
Homeland Security Grant Program	97.067	E15-118, FFY 2014	30,000		30,000	2,7
Total US Department of Homeland Security			45,578	-	45,578	
TOTAL FEDERAL AWARDS EXPENDED:			\$1,130,340	\$1,061,132	\$2,191,472	

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**NOTE 1 – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the City's financial statements. The City uses a modified accrual basis of accounting for its governmental funds and full accrual basis of accounting for its proprietary funds.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – REVOLVING LOAN – PROGRAM INCOME

The City participates in a Regional Revolving Loan program for economic development which is operated by Benton Franklin Council of Governments. Under this federal pass-through grant, repayments to the City are considered program income, and loans of such funds to eligible recipients are considered expenditures.

The City participates in the Neighborhood Stabilization Program for recovering foreclosed properties which are rehabilitated and sold as low-income housing. Under this federal pass-through grant, the sale of low-income homes by the City is considered program income, and the cost of rehabilitating homes and purchasing properties are considered expenditures. In 2015, \$112,393 in program income was generated from the sale of property.

The City also participates in the Housing and Urban Development HOME Program for low-income individuals, as part of a regional consortium administered through the City of Richland. The City is not privy to information on what portion of funds received from the City of Richland are derived from program income.

NOTE 4 – PRIOR YEAR EXPENDITURES

The amount reported includes \$33,630 in previously unreported prior year expenditures. This amount was originally denied because it was in a line item that was maxed out. After the project closed the grantor transferred the remaining funds into the line item maxed out. The grantor paid the remainder of the funds.

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

The total amount of \$256,085 was passed through to sub-recipient City of Richland.

NOTE 6 –DEPARTMENT OF JUSTICE –EQUITABLE SHARING

The City reports these funds on the Schedule of Expenditures of Federal Awards when program proceeds are received rather than when expenditures are incurred due to program stipulations.

NOTE 7 – INDIRECT COST RATE

The amount expended includes \$0.00 claimed as an indirect cost recovery using an approved indirect cost rate of 0 percent. The City has elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

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.

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